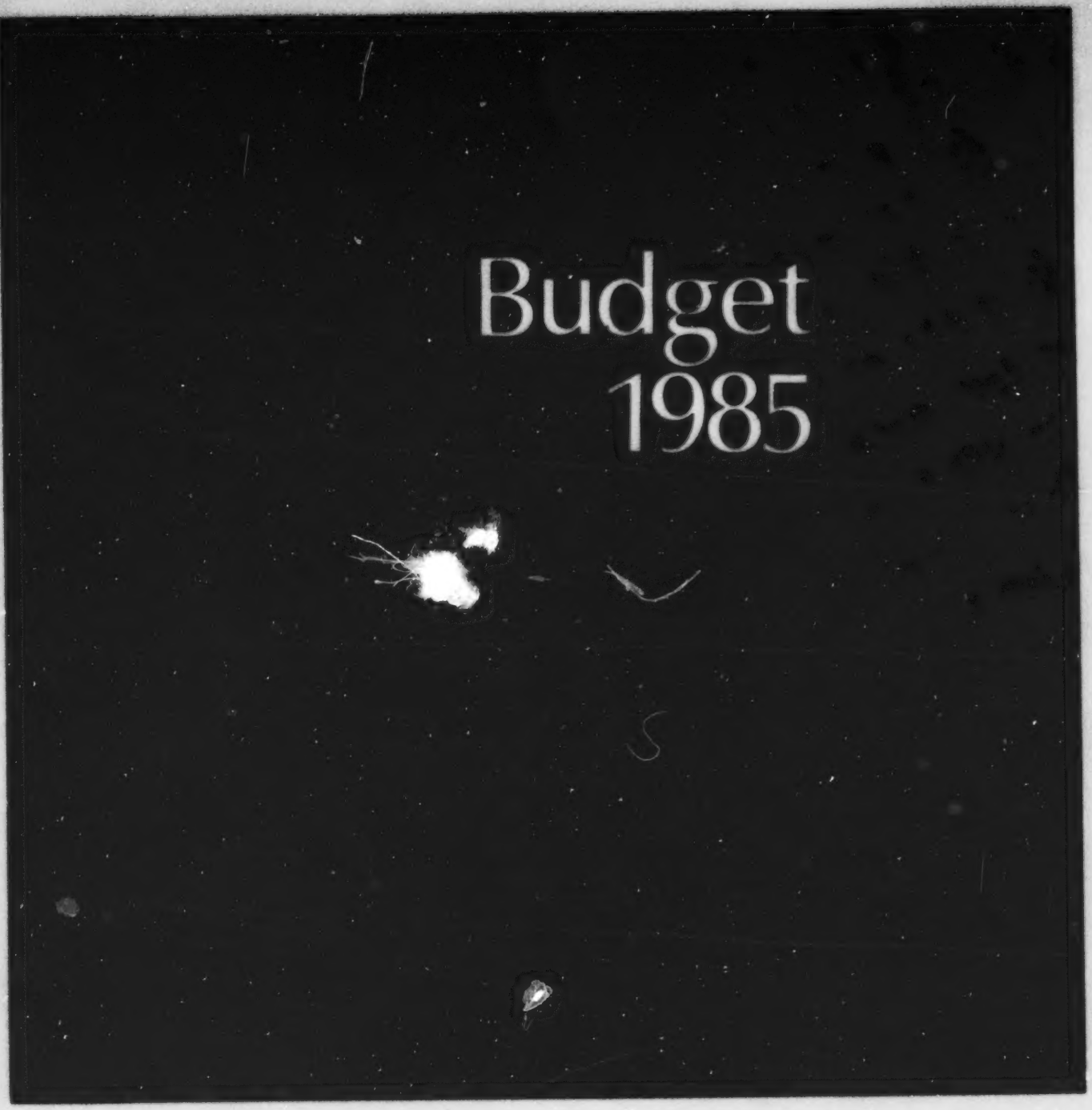
Budget 1985



Province of British Columbia

The Honourable Hugh Curtis, M.L.A.
Minister of Finance

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I. Introduction

Mr. Speaker, it is my privilege to present the tenth budget of this Social Credit administration. It is perhaps the most important budget of this decade, as I shall propose measures for economic growth and renewal that will secure employment opportunities for British Columbians for years to come.

No budget is easy to assemble, particularly in the difficult economic environment we now face, but preparing this one has been rewarding as it contains the positive measures made possible by the efforts of the past three years. Because of the responsible decisions taken by this government in previous budgets, we are now able to build on the strong foundation of our restraint program to create new employment through the development and diversification of British Columbia's economy, in partnership with the federal and municipal governments.

This is not to suggest that our difficulties are over. We continue to adapt to a very competitive and rapidly evolving world economy. Financial constraints and common sense dictate that we continue to exercise fiscal discipline. Restraint is now a permanent and continuing feature of public policy in British Columbia. However, we have been through the hardest part of the adjustment and can look to improvement in the months and years ahead.

In the last Budget, I indicated my intention to conduct a thorough review of the impact of taxation upon economic development.

Following a detailed comparison of the taxation situation faced by British Columbia firms, I undertook a series of twenty-eight public meetings over the period September 5 to November 6, 1984. In many communities throughout the province I heard the comments and suggestions of almost 400 British Columbians as to how the taxation system could be changed, focusing particularly on ways to foster economic development and job creation.

I was impressed, during those meetings, with the realistic attitude and understanding of current economic circumstances and the cautious optimism shown by individuals, businesses, groups and community leaders.

I express my gratitude to the panel members who accompanied me and thank all of those who made the effort to attend the meetings and present their opinions. This budget is a better document because of their thoughtful views.

Over the last year my Cabinet colleagues and I have met with, and received representations from, hundreds of British Columbians on a wide range of matters including regulatory reform, social policy, resource management and industrial development. This continuing process of consultation has been of great assistance to me in developing this budget.

As we look back on the past few years, British Columbians can be satisfied that, faced with very difficult financial and economic adjustments, we acted quickly and decisively. This province had to make a major adjustment when the world economy began to undergo a major transition in the first half of the 1980s. It was not possible to make this an easy adjustment, but forthright and well-conceived measures by the provincial government could, and did, ensure a positive result from the process. Had we not introduced bold and innovative policies of restraint, we would now, as in other parts of Canada, be facing even more difficult decisions. Instead, British Columbians have responded by moderating demands for wage increases and increasing productivity. We are now ready to undertake a program to develop and diversify our economy, enabling us to meet the challenges of the new international trading environment.

Building on the foundation of restraint, this budget charts a new course for British Columbia, a course which I am confident will take us into an era of growth as we approach the 1990s.

II. Economic and Fiscal Policy Environment

The experience of 1984 demonstrated once more, and very forcefully, that British Columbia is reliant on international markets for our major resource products. Despite the booming conditions of the United States economy, prices for forest and mineral products have been scarcely above the recessionary lows of 1982. Clearly, there has been a fundamental change from the time when strong growth in the United States could be relied upon to fuel rising prices for our products and, in turn, support rising incomes and employment in British Columbia. There is now very tough competition for the markets we once took for granted. Our challenge is to work harder, be more innovative and become more efficient as we move into the second half of the 1980s.

The causes of this fundamental change in world commodity markets are many and complex, but several factors merit attention.

First, there has been a large increase in the supply of natural resources to world markets as a result of the sharp increase in prices for these products during the 1970s. In particular, many less-developed countries have elected to increase sales of natural resources, in order to earn the foreign exchange needed to meet payments on foreign debt. This has caused special problems for metal mines, not just in our province, but throughout the developed countries.

Second, among the changes taking place in the developed economies, there is a shift away from the heavy industries which have consumed large volumes of natural resources in the past. Although the growth of the service sector and the trend toward high-technology and communications industries should not be overstated, there is no question that changes are taking place, causing lower rates of growth in markets for many natural resource products.

Third, the high interest rates of the 1980s have had a profound effect on world economic events. The 1970s were a time of high inflation and low real interest rates, fuelled by expansionary monetary policy and major increases in commodity prices. Resource producing regions enjoyed extraordinary and, in retrospect, unsustainable economic growth. The last few years, by contrast, have seen extremely high interest rates in relation to the level of inflation, and a consequent erosion in the prices of many basic resources.

Finally, there is an accelerating trend toward protectionist policies among nations whose traditional industries are unable to withstand the growing competition from foreign suppliers. These barriers to trade, whether in the form of quotas, regulatory restrictions, or tariffs, represent a serious threat to world trade, and consequently to the British Columbia economy.

I know that some will ask why we should continue to rely on trade if we are faced with the effects of events beyond our control. Why not simply look inward, reduce our dependence on trade, and concentrate our efforts on production for our own market.

The fallacy in that reasoning must be spelled out. British Columbia, in fact Canada, has a relatively small population compared with the major industrial countries. Producers in those economies have comparatively free access to markets of 100 million or more people, allowing significant cost reductions through specialized production and competition. Producing only for a small and widely dispersed market such as we have in Canada would mean much higher costs and much lower living standards than international trade has made possible. We have been able to achieve substantial production efficiencies, higher incomes, and greater employment by specializing and selling into the major markets of the world. British Columbia's history has therefore been one of development based upon international trade.

Exports from British Columbia currently represent about 60 per cent of total manufacturing shipments and provide, directly and indirectly, hundreds of thousands of jobs for our people. Our relative prosperity has been based largely on our ability to supply world markets with competitive products. It is essential that we expand and diversify our markets and industries, never forgetting that British Columbia's future prosperity will continue to be strongly dependent on our ability to compete internationally.

The dramatic changes in the world economy have had, and continue to have, significant implications for government policy. During the commodity booms of the 1970s, rapidly rising resource prices caused large increases in corporate profits and government revenues. These in turn flowed through to increased employment, expanded public services, higher wages and salaries and higher share prices and real estate values. Buoyant economic conditions also attracted large numbers of people into the province, with the net inflow reaching a record 59,000 in 1980.

Although the momentum of in-migration, investment and public spending continued to sustain economic activity in British Columbia through 1980 and early 1981, the fundamentals were undergoing change. Prices of key British Columbia exports declined sharply from the peaks reached in 1979 and 1980. For example, lumber which sold for $322 per 1,000 board feet in August of 1979 had fallen to $166 by late 1981. Similarly, copper declined from a peak of $1.50 a pound in February of 1980 to 75¢ a pound in June of 1982.

As the world-wide recession continued into 1982 it became apparent that this was not a normal cyclical downturn. The changes taking place were more fundamental than any since before World War II, and a return to booming commodity markets could no longer be considered a certainty.

Over this period there was a rapid and sustained deterioration in the provincial government's finances. Revenues generated by the resource boom disappeared while the spending requirements of social programs introduced during the boom grew rapidly in response to the recession.

From a surplus of $542 million in 1979/80, the government experienced a deficit of $257 million in 1980/81 and, despite several hundred million dollars in measures to broaden the revenue base, a deficit of $184 million in 1981/82. By early 1982, forecasts showed a pattern of rising deficits with no prospect of returning to fiscal balance even with a normal cyclical economic recovery. British Columbia, like other provinces and the federal government, had developed what is commonly referred to as a structural deficit.

Because the deficit had reached the point where normal economic recovery would not eliminate it, corrective action was required. The alternative was a legacy of public debt, interest payments and high taxes for future generations. At the same time, steps were needed to cushion the impact of the recession on those least able to cope.

Responding to this serious situation, in February 1982 the Premier announced a policy of restraint, comprised of two major elements. The Compensation Stabilization Program introduced a system of guidelines to limit wages and salaries in the public sector, while the restraint on government program placed limits on the expenditure of the provincial and local governments.

The C.S.P. is unique among wage guideline programs in that it preserves the collective bargaining process and ensures equity among different employee groups in the public sector. The flexibility and productivity incentives inherent in the program have ensured its success and allowed it to develop into a permanent feature of public sector collective bargaining in British Columbia.

In addition, the limit on spending initiated the process of cancelling or modifying some less essential programs, in order to reduce the permanent expenditure base of the provincial government

to a level which could reasonably be afforded by taxpayers over the longer term. This process has continued for the past three years. By controlling the cost of government in the province, restraint has allowed essential social programs to be preserved.

The government has also acted to soften the impact of the recession and of the economic readjustment through significant fiscal stimulus. By March 31, 1985 some $2.3 billion will have been borrowed to finance the maintenance of income assistance, health care and other crucial social programs, as well as the acceleration of employment-creating highway construction activity. Taken together with government-supported projects such as Northeast Coal, B.C. Place, Expo 86 and ALRT, this fiscal injection has directly or indirectly maintained thousands of jobs since the recession began.

Building upon the foundation provided by the restraint program, we must now move to the next phase — that of revitalizing the industrial and economic base of British Columbia.

First, we must recognize the necessity of controlling our costs in a tough, competitive world economy. Steady progress has been made in the past few years in raising productivity and limiting wage increases in both the public and private sectors, but British Columbia's cost structure remains high compared with that of our competitors.

Second, we must recognize that our resource sectors, while continuing to provide a solid base for our economy, cannot alone generate the income and employment needed to meet the demands of a growing population. For the balance of this century, prosperity in British Columbia will increasingly depend on our ability to expand the base by promoting further processing of our resources and by attracting and developing new industrial activities in which we can be competitive.

Third, we must be aware of the problems and opportunities associated with the emergence of the newly industrialized countries as both strong competitors and potential markets.

Finally, we must be alert to the effects of rapidly changing technology on both employment patterns and markets. Scientific advances are changing our economy, just as they change our lives.

To compete successfully our industries must be able to respond and adapt quickly. Similarly, all who are consumers of government services must recognize that these services have to be paid for through taxation which, if it becomes excessive, will erode incentives for productive activity, threaten our competitiveness and, ultimately, cause the loss of jobs and a reduced standard of living.

I shall be announcing today an extensive series of initiatives aimed at renewing and revitalizing our industrial base. Because steps have been taken in the past three years toward restraining costs, this province is well placed to sell to expanding markets and take advantage of new opportunities. Creative incentives for investment combined with continued fiscal discipline will support the rejuvenation of our existing industries and make British Columbia a prime location for the establishment and growth of new businesses, both small and large.

III. Economic Outlook

I now turn to the economic events of the past year and the current outlook for 1985.

Further evidence was provided in 1984 of the structural changes occurring in our principal markets. Although the United States experienced its highest rate of economic growth since 1951, markets for our natural resource products continued to exhibit low prices, while sales volumes of forest products were at or near record high levels.

In contrast with previous periods of expansion most commodity prices declined in 1984, reflecting the abundant supply of natural resources, from both developed and developing countries. The average price obtained by British Columbia exporters for lumber declined by 13 per cent in 1984, despite housing starts in the United States reaching their highest level since 1978. The price of copper, the most important metallic mineral for British Columbia, declined by 9 per cent in 1984. Similarly, export prices of coal and natural gas were under downward pressure during the past year.

In common with most other resource dependent regions of the world, the provincial economy was weaker than expected, and is estimated to have shown little growth in 1984. Retail sales increased by about four per cent, and personal income by approximately two per cent during the year. The most positive economic indicator in 1984 was the inflation rate which, at four per cent, reached the lowest level in the 14 years that the Vancouver Consumer Price Index has been available.

The limited economic growth in 1984 was reflected in the higher unemployment rate. Although British Columbia recorded an increase of 20,000 jobs between December 1983 and December 1984, the highest number of new jobs recorded by any of the four Western provinces, this increase was less than the number of new entrants into the labour force.

Unemployment in British Columbia is recognized as our major problem. Our first and most important priority is to accelerate growth in the number of permanent jobs in the province. The measures which I shall announce today are designed to encourage new investment, particularly by the private sector.

Partly as a result of these measures, we can expect a greater increase in employment this year than last. Despite this improvement, the rate of unemployment is likely to decline slowly, as British Columbia continues to attract people from other provinces in search of work. Over the last four years, during which the provincial unemployment rate has exceeded the national average, we have experienced a net inflow of approximately 38,000 people from the rest of Canada. By contrast, our neighbouring province of Alberta has experienced a net outflow of 28,000. The movement of people to British Columbia, which does not appear likely to be reversed in the near term puts pressure on our labour market, our public infrastructure, and our social programs. Nevertheless, it is a positive sign that, despite the current economic situation, many people view our province as an attractive and promising place in which to make a home.

There are several reasons for cautious optimism about the provincial economic outlook for 1985.

- Internationally, the United States economy has strengthened in the last few months and growth should exceed three per cent.
- Western Europe and Japan are also forecast to enjoy moderate to strong growth.
- Inflation in British Columbia is expected to remain low.
- Export lumber prices have shown some improvement in recent months and should remain generally higher in 1985 than 1984, unless interest rates increase significantly from current levels.

For 1985, I expect real growth in the British Columbia economy to be approximately two and one-half per cent. Consumer spending is expected to strengthen slightly, and exports should increase in line with world economic growth. Business investment should also increase this year as confidence grows in British Columbia's improving economic prospects.

Before leaving the subject of the economic outlook, I should note some sources of concern.

First, there are major risks present in international financial markets. Any significant increase in world interest rates would have a major impact on British Columbia's exports and on the ability of our businesses and individuals to cope with their debt.

Second, as mentioned earlier, there is a potential upsurge in protectionism.

Third, there are dangers associated with the massive federal deficit. Clearly, action is required to limit federal borrowing in order to reduce pressure on interest rates, but I sincerely hope that federal deficit reduction will not be achieved through tax increases which would place a burden on individuals and harm the competitiveness of our industries.

If we avoid these potential negative influences, I am confident that 1985 will be a year of improved economic performance for British Columbia.

IV. Fiscal Plan

The government's current and projected fiscal situation reflects the actions taken in the past three years to stabilize a deficit which threatened to grow out of control. From its peak in 1983/84, the deficit has been reduced in the current fiscal year and will be reduced further in 1985/86.

As we approach the end of fiscal year 1984/85, I am now forecasting a deficit of $970 million, about $300 million higher than originally estimated but still $50 million below the previous year's deficit. The increase from budget has been caused by additional spending on income assistance and by expansion of the government's highway construction program. Both allocations have helped sustain the province during a period in which our export markets have been weaker than anticipated.

In preparing this budget, my primary goal has been to provide scope for the government's economic renewal initiatives. It has become clear, both from the information I received during the public meetings on Taxation and Economic Development and from independent studies, including those commissioned by the government, that our taxation structure as it affects business is in need of reform.

If our industries are to compete nationally and internationally, and provide a lasting base of employment, we must ensure our tax burden is in line with that of competing suppliers in other areas of North America.

During the 1970s we developed an excessive reliance on taxes which are inflexible with respect to profits. In the current weak international market such taxes have become unaffordable and a hindrance to economic expansion and job creation. I shall announce today changes to ease tax burdens which, while supportable during the resource boom years of the late 1970s, have become excessive in this newer, more competitive environment.

I shall also describe, as part of the partnership program for economic renewal, a range of expenditure initiatives representing investments in the future of British Columbia's economy. It should be clearly recognized that this new program has been made possible by the measures taken in the past three years.

Before taxation adjustments, government revenue is estimated at $8.214 billion for 1985/86, an increase of 5.6 per cent from the revised forecast for 1984/85. Revenue measures are expected to reduce estimated revenue by $48 million in 1985/86 to $8.166 billion. Certain other tax reductions will have the effect of increasing expenditure by $88 million in 1985/86. Some of the tax reductions are phased in over a three year period and the total impact by the third year will be $480 million.

The expenditure budget for 1985/86 provides stable funding for the basic programs of the government and a major allocation for economic renewal initiatives. In total, government expenditure is budgeted at $9.056 billion in 1985/86, for an increase of 3.5 per cent over the revised forecast for 1984/85.

Even with major tax reductions and expenditure programs to spur growth and development, the government's budgetary deficit is estimated to decline further in 1985/86, to $890 million, from the level of $970 million now forecast for the current fiscal year. To achieve a further decline in the deficit during a year in which the government is undertaking fiscal initiatives for economic renewal, through both revenue and expenditure measures, of some $694 million is an accomplishment in which we can take great pride.

We can afford to introduce these measures now *only* because of the success of our restraint program in bringing the deficit under control and because the permanence of restraint allows us to plan tax reductions affecting future years.

We should not become complacent. While our fiscal situation is improved, we must still borrow heavily to finance government programs. I am convinced that the economic renewal program will pay dividends in future years in the form of business activity, jobs and government revenue. Nevertheless, we must continue to control the cost of our programs and seek ways to increase productivity, eliminate waste and reduce overhead costs in government.

Public sector compensation costs, in particular, must not again become a source of fiscal instability. Except for increases already established, the budget for 1985/86 contains no provision for salary increases for direct government employees or for employees in the agencies funded by government. If salary demands by government employees reflect the taxpayers' ability to pay, further layoffs can be averted. The same condition will apply to other public sector employee groups when their employers have completed the process of adjustment. This is a stringent requirement, but it is one which the private sector has been forced to meet in order to survive.

As the economy expands over the next few years we must continue to work toward reducing and eventually eliminating the deficit. Accumulated direct debt for government purposes will exceed $3 billion by the end of next year, in spite of restraint. Interest payments alone are estimated at $384 million next year, or more than $1 million each day. The government is committed to halting and reversing the growth of this debt burden on our taxpayers.

V. The Economic Renewal Program

Let me now describe a number of major initiatives in the government's program of partnership for economic renewal. As I suggested earlier, the changing world dictates the need for innovative policies to encourage and assist the development and diversification of our economy. We have moved through the most difficult part of the adjustment and are now ready to seize new opportunities.

The program will represent a comprehensive approach to strengthening our industrial base and attracting new industries to the province. I am today announcing four major elements:

- Taxation measures to reduce the cost burden on business and industry and to provide incentives for new investment.

- Industrial development programs to encourage and assist the establishment and expansion of industries in the province.

- New programs of investment in our natural resource base, providing jobs now and in the future.

- Investments in major public projects to provide employment now, and benefits for years to come.

Further elements of the program will be announced by my colleagues.

Achievement of our goals will require partnership and co-operation with the private sector and among governments. Last fall British Columbia signed an Economic and Regional Development Agreement with the federal government to set the framework for delivery of joint economic programs. The Minister of Industry and Small Business Development is negotiating subsidiary agreements with the federal government to provide a wide range of industrial and resource development programs under the ERDA umbrella. Although specific terms and funding levels for ERDA subsidiary agreements have not been settled, this budget provides the provincial portion of a joint funding allocation for British Columbia totalling $650 million over five years. We are confident that British Columbia's representatives in Ottawa will ensure that we receive the fair treatment that this province deserves.

The provincial government will also be inviting local participation in the program through municipal partnership agreements. I have authorized the Minister of Municipal Affairs to offer participating municipalities a 50 per cent reduction in non-residential school property taxes for all new industrial improvements.

My colleague will announce the full details of this new program of partnership, which represents an exciting innovation in public policy. It is my expectation that most municipalities in British Columbia will enter into this venture of co-operation with the provincial government.

A further aspect of partnership involves working with business and labour to find innovative solutions to the problems of adjustment faced by our basic industries. I am prepared to work on this with others through a Commissioner of Critical Industries, who will be appointed shortly.

Taxation Measures for Economic Renewal

I have referred several times to the importance of new taxation policies for encouraging further development in the province. The results of our analysis and my public meetings have indicated that certain British Columbia taxes on business are somewhat higher than taxes in competing jurisdictions.

In discussions over the past year on tax measures to encourage development, I was presented with two alternative approaches. Some participants argued that the government should provide targeted incentives to certain favoured sectors or industries which are thought to have high growth potential or which are in need of government support.

Others proposed that the government should implement general tax reductions and allow market forces to determine which industries flourish in the province.

With these views in mind, I am proposing a balanced package of taxation measures with three major objectives:

- First, it attempts to provide a significant degree of tax relief to a broad range of businesses in the province.

- Second, it is intended to reduce or remove elements of the tax system which are out of line with competing jurisdictions, creating a disadvantage for existing businesses and impeding new investment.

- Third, a series of measures are included to offer benefits particularly to sectors of the economy with strong potential for growth.

In order to provide the maximum possible assistance within the fiscal constraints, and reflecting my confidence in our ability to maintain fiscal discipline, the government will phase in several major tax measures over the next three years. This will provide a firm basis on which new and existing businesses can plan future investments.

I refer now to the government's major revenue measures.

- First, for taxation years commencing after March 31, 1985 and for a period of two years, the provincial government will provide a small business employment tax credit equivalent to approximately $300 for each employee of a small business corporation.

Time and time again during the public meetings, I was told that small business is the keystone of our economy and the major creator of jobs. Fixed expenses such as unemployment insurance contributions, Canada Pension Plan contributions and Workers' Compensation Board assessments, were identified as significant disincentives to hiring new employees.

This government believes the encouragement of small business is essential to the partnership for economic renewal. Most important, the growth of our small businesses is essential for the achievement of our first priority — jobs for the men and women who wish to gain employment in our province.

Having examined the issue carefully, I have concluded that a refundable tax credit based on wages and salaries is the most appropriate means of encouraging small business activity and providing an incentive to employ more people.

This is not a minor program. It is expected to reduce the cost of employing some 250,000 persons in the small business sector, with the full tax reduction estimated to be $75 million annually. Over the two years this program will be in operation, $150 million of stimulus will be given to small business.

It is intended that this program be provided through the income tax system, which is administered by the federal government. Federal agreement will therefore be required. Based on discussions I have had with the federal minister of finance, I am confident that approval will be forthcoming.

- Second, the imposition of property taxation on machinery and equipment will be phased out over three years, starting this year. In addition, property taxation will not be applied to new machinery and equipment installed after September 30, 1984. The school property tax rate applied to machinery and equipment will be reduced by one-third in 1985, by two-thirds in 1986, and will be eliminated in 1987. This tax reduction will cost an estimated $69 million in fiscal year 1985/86 and $358 million over the next three years. Machinery and equipment tax rates for non-school purposes will be phased out over two years beginning in 1986. For the 1987 and subsequent assessment rolls, machinery and equipment will not be assessed or taxed.

During my consultations the taxation of machinery and equipment was widely criticized as being burdensome, unfair and counterproductive to investment. In the current economic climate it represents a serious impediment to businesses considering investment in the province and places our producers at a disadvantage with respect to competitors in other provinces and countries. The exemption of new machinery and equipment will encourage immediate expansion and establishment of new business while the phase-out of property taxes on existing equipment will rapidly eliminate the burden on our existing industries, particularly forestry and mining.

- Third, the school property tax rates applied to industrial and commercial property will be reduced over the next three years from a level more than three times as high as residential tax rates to a level of approximately twice residential tax rates. This process will begin in 1985 with the rate applied to industrial properties being reduced from a ratio of 3.4:1 to a ratio of 3:1, compared to residential rates. This will reduce taxes on the industrial property class by an estimated $15.5 million in 1985/86 and by an estimated $144 million over the next three years. Residential taxes will not be affected by this change.

Along with the machinery and equipment tax, the high property tax rate on the industrial and commercial classes was identified in our comparative tax analysis and in my public consultations as a major source of disparity between the tax burden on businesses in British Columbia and that in competing jurisdictions. The gradual reduction in these rates will bring British Columbia's property taxation to a level which will allow us to compete on an even basis.

- Fourth, effective midnight tonight, tax rates applied to off-road use of motor fuel and aviation fuel will be reduced to seven per cent of the pre-tax selling price of gasoline. In the case of marine bunker fuel, where price changes can be substantially different from those for gasoline, the tax will be seven per cent of the pre-tax selling price of that fuel. This change will lower the tax rate on aviation fuel, marine bunker fuel, coloured gasoline, coloured diesel fuel, and fuel used by farmers and commercial fishermen. All of these fuels are presently taxed at a variety of higher rates in the range of 10 per cent to 20 per cent of the selling price. This measure will reduce revenue by an estimated $55 million in 1985/86 and an estimated $172 million over the next three years.

The new seven per cent rate represents a significant reduction and makes these fuels taxable at a rate equivalent to that for goods subject to the social service tax. Clear fuels used on public roads will remain taxable at present rates in order to provide a contribution toward the costs of constructing and maintaining our extensive network of public highways.

- Fifth, the Corporation Capital Tax will be phased out over the next three years, except as it applies to major banks with head offices outside British Columbia. The phase-out will be accomplished by replacing the present $1 million exemption with a deduction of $5 million effective for years ending on or after April 1, 1985 and $10 million effective for years ending on or after April 1, 1986. For years ending on or after April 1, 1987, the tax will be eliminated except, as I indicated, for certain large banks. The gradual elimination of this tax will reduce revenue by $3 million in 1985/86 and by $96 million over the next three years.

Throughout my meetings last fall, indeed, ever since I became Minister of Finance, I have received almost unanimous recommendations to repeal this tax. It is a capricious and ill-conceived tax which this government has previously committed itself to eliminate. I am therefore very pleased to be able to announce its termination today. The tax will be retained only for large, externally-based banks to ensure that these corporations make a reasonable contribution to provincial tax revenue.

- Sixth, effective midnight tonight, a series of items purchased for use in the aquaculture industry will become exempt from social service tax, placing this industry on a similar basis to agriculture and fishing.

Aquaculture has the clear potential to be a growth industry in British Columbia for the rest of this century. We are well behind such competing nations as Norway and Japan in farming the seas, but our natural advantages give us the chance to develop this sector quickly. British Columbia is ready to move into aquaculture in a serious way. The new exemptions will assist the industry and demonstrate that we mean business.

- Seventh, effective midnight tonight, a number of items used by British Columbia firms in the manufacture or servicing of goods, will be exempted from social service tax. Exemptions will now apply to jigs, dies, molds and patterns, to abrasives such as sandpaper and grinding wheels, and to certain items used by photographic, printing and publishing industries.

Representations made during the public meetings argued convincingly that materials which are consumed or used during the production process should not be taxed because the final goods produced are subject to tax. Today, I have taken a step toward achieving that goal.

- Eighth, effective for the 1985 taxation year, the government will provide a provincial income tax credit to purchasers of newly issued common shares in small business venture capital corporations. The credit will equal 30 per cent of the amounts received by the venture capital corporations for their shares and a grant mechanism will be established to provide for payment of an equivalent incentive to non-taxable entities such as pension funds. The venture capital corporations will, in turn, provide equity capital to small businesses engaged in manufacturing and processing, research and development, tourism, and aquaculture.

The provision of risk capital to finance new ventures is an important ingredient in a dynamic and growing economy. This aspect of financing has not been adequate in Canada and, accordingly, the government is encouraging equity investment through this new mechanism. As a result of this measure there will be a new source of investment capital for innovative small businesses and an incentive for individuals to realize tax savings by increasing their investment in the province. Legislation governing small business venture capital corporations will be presented by the Minister of Industry and Small Business Development.

- Ninth, effective for the 1986 property taxation year, the provincial government will forgive 50 per cent of the school property tax on new industrial investment in non-municipal areas. This incentive, which parallels and complements the provincial initiatives forthcoming in the Municipal Partnership Agreements, will continue to the end of the 1990 taxation year.

Property taxes are often cited as a barrier by prospective investors in industrial facilities because full taxes must be paid before a new plant is fully operational and profitable. This tax measure for non-municipal areas, and the equivalent measures to be provided in participating municipalities, will create an incentive for industries to accelerate investment plans in order to take maximum advantage of the tax reduction. As a result it will create construction jobs now and new permanent jobs in the next few years.

- Tenth, water rental fees for the generation of hydro-electric power will be frozen for five years beginning in 1985. The government previously announced the deferral of the 6.1 per cent indexing adjustment for 1985. There will be no further indexing of water rental rates until 1990.

Considerable concern has been expressed about the magnitude of recent increases in water rental rates. The government moved up power rates significantly to bring them more in line with the costs of adding generating capacity and with the prices of alternate forms of energy. It is now prudent to suspend the planned increases for the remainder of this decade. This freeze will assist our basic resource industries, which are heavy users of electric power.

These ten major revenue measures comprise the taxation portion of the program of partnership for economic renewal. Over the next three years, these and other tax changes in this budget will cost the government an estimated $955 million. I can say without hesitation that this represents the most significant reform in provincial tax policy in at least 40 years, and probably in the history of the province.

I wish to thank the many people who contributed in a variety of ways to the assembling of these measures. Their comments, criticisms, submissions and hard work have resulted in a set of tax changes for economic development which I am honoured to be able to introduce.

Before leaving the subject of taxation measures for economic renewal, I should like to describe three further initiatives that we plan to implement in the coming months.

The importance of increased business investment to future economic well-being is not confined to our province. It is also vital to the national economy. But business can only invest in modernization and expansion if funds are made available for this purpose. It is our view that the recovery will be greatly assisted if individual Canadians are encouraged to invest in Canadian businesses.

The savings of individual Canadians are at a high level, and channelling these savings into equity investments in Canadian industry would finance modernization and expansion without imposing on industry the risks associated with a heavy burden of fixed debt. The benefits to Canada from increased equity participation by individuals would include a better understanding among the general public of the function of profits in the economy, an increased awareness of the effects of business cycles, and an enhancement of the entrepreneurial spirit of Canadians.

Although income from equity investments already receives certain advantages under the Canadian tax system, the government believes that a new instrument could create a direct incentive for individuals to become equity participants and provide some risk protection for new investors.

To meet these goals our government has designed a national plan, the Canada Equity Plan, to encourage investors to purchase new equity shares in Canadian public corporations. This plan was presented by the Premier at the recent First Ministers' Conference on the Economy. It is our hope that the federal government will introduce a national initiative in which all provinces can participate. If the federal government is unable to proceed, we are prepared to develop a provincial plan, to be administered through the income tax system.

The proposed Canada Equity Plan would provide a 20 per cent income tax credit to investors in newly issued common shares of Canadian public corporations. The maximum credit available to an individual would be restricted on an annual basis and as a percentage of taxable income. The cost of the plan, estimated to be $100 to $200 million annually, could be shared by the federal and provincial governments on a two-thirds/one-third basis. Details of this proposal are provided in an appendix to this document.

A second measure on which we are working is the establishment of Special Enterprise Zones.

The government has proposed the creation of zones in order to attract industries which, given present cost, tax and regulatory considerations, would not otherwise locate in Canada. Special Enterprise Zones could allow British Columbia to take advantage of its Pacific Rim location, access to tidewater, existing transportation system and skilled work force to bring to the province new types of industry with the potential to employ growing numbers of British Columbians in high quality jobs.

A firm locating in a zone would be eligible for a series of financial and taxation incentives. The federal government has agreed to administer certain provincial measures and has been approached to offer corresponding incentives.

The tax incentives will result in little or no revenue loss, since the objective of the zones is to attract firms that would not otherwise locate in Canada. A tight screening mechanism is proposed to ensure that the production will not cause injury to other domestic producers.

It is the government's intention to proceed with creation of the first zone once Ottawa has indicated whether or not federal incentives will be provided. I emphasize that we are ready to proceed as soon as possible.

The third initiative concerns the development of the financial sector in British Columbia, and particularly in Vancouver. Growth in international trade is crucially dependent on a world-class financial services industry. The government is committed to encouraging the establishment in Vancouver of an international financial centre which, by attracting financial transactions involving non-residents, would be complementary to the development of our domestic financial services sector. It is my hope that a joint federal-provincial review of the taxation and regulatory measures necessary to attract international financial business to Canada, and, in particular, to Vancouver, will be undertaken in the coming year.

Before turning to a number of other elements of our program, may I advise the House that I shall announce later today a number of additional tax measures designed mainly to improve the fair application and administration of the tax system.

Industrial Development Programs

The second set of initiatives is comprised of industrial development programs which, by encouraging and assisting private sector activity, will generate new investment in British Columbia and create jobs. The programs are directed toward industries and sectors of the economy with the greatest potential to contribute to economic growth and diversification.

These include the Industrial Incentive Fund to encourage strategically important investment opportunities, the Industrial Development Assistance Program for small and medium sized secondary manufacturing and processing firms, the Small Manufacturing Incentive Program for small businesses, and the Tourism Infrastructure Incentive Program to establish and improve tourist attractions.

The Minister of Industry and Small Business Development will provide details on the operation of these new assistance programs and will present the enabling legislation.

The Minister of International Trade and Investment will be instrumental in stimulating industrial development and job creation. New and broader markets for British Columbia exports will be sought to encourage the expansion of wealth-creating activity. In addition, by attracting capital and investment to British Columbia, the Ministry will make a major contribution to economic renewal.

As well as increasing British Columbia's profile abroad through additional representation and marketing programs, the Ministry will undertake a series of high quality investment seminars for potential investors abroad involving professionals, businessmen, and government members and officials from British Columbia.

Other initiatives include a program of agricultural market development, measures to encourage expansion of the food processing industry, a program of assistance for science and technology projects and an enhancement of the successful Discovery Enterprise Program for advanced technology industries.

We shall also introduce a new and comprehensive public sector purchasing policy, which has been developed in the Ministry of Finance. The massive purchasing power of the provincial public sector will be harnessed to create opportunities for expansion of our industries.

Investment in Our Natural Resource Base

Significant provincial assistance will be provided to those industries which form the traditional basis of our economy, forestry and mining. Many of the taxation measures which I have outlined will help these industries regain their competitive position in world markets. In addition, we shall be undertaking a major program of investment in our resource industries to create jobs now and preserve jobs in the future. The Forest Resource Development Program, for which we hope to obtain federal participation under ERDA, is expected to provide $300 million over the next five years for reforestation, intensive silviculture and related research. Jobs will be created and future timber supplies will be assured through this investment.

Another program for which federal participation under ERDA has been sought is an initiative to help the mining industry identify new resource development opportunities. An accelerated program of mapping and exploration will provide valuable information upon which the renewal of the mining industry will be based.

A third natural resource program to be undertaken with the federal government is the Agriculture and Rural Development Program. This initiative will provide assistance for applied research and technology transfer, resource development and the provision of production and marketing facilities and support services.

Our resource industries have undergone a difficult period of adjustment and emerged more productive and competitive than ever before. The provincial government's role in resource management must also be changed to ensure that industries have incentives to remain productive and efficient. The Small Business Enterprise Program in the Ministry of Forests is one example of the way that resource management is gradually being adjusted. A new system will be introduced for financing forest access roads for timber harvested under this program. Bonus bids paid on timber sold through auctions will be made available through a special account to finance access roads, ensuring that new roads are justified by the value of the timber being harvested. Over the long term, this and other adjustments will help to achieve a balance in resource management expenditures and revenues.

Investment in Major Capital Projects

A number of major capital projects are underway or are being introduced to provide both immediate jobs and lasting legacies in the form of lower transportation costs and worldwide exposure.

The new Coquihalla highway will shorten the driving time between Vancouver and various interior communities by up to two hours and provide a new, scenic route to and from the Lower Mainland in time for Expo 86. It is intended that a portion of the saving to users will be levied as a toll which will contribute significantly toward meeting the cost of accelerating the project.

Funds will also be provided for the construction of the Annacis Bridge. This additional crossing of the Fraser River, providing improved access to Vancouver from the south, will also be constructed in time for Expo 86.

Another major project which will provide thousands of construction jobs in the coming year is the Advanced Light Rapid Transit system. This project will be operational in January 1986, providing improved local transit services for people in Vancouver and a fast and efficient transportation system for commuters in the Lower Mainland.

The government is able to take advantage of competitive construction costs at this time, and provide economic stimulus through these expansions to the provincial transportation network.

Other capital projects to be undertaken in the coming year include development and maintenance of facilities in our provincial parks and acceleration of dyking construction.

Finally, and most important, our world exposition, Expo 86, will generate jobs and economic activity across the province and will bring the world to British Columbia. New markets and investors will be introduced to our province. We must all work together to ensure that British Columbia is prepared to take the best advantage of this unique opportunity.

The broad set of economic measures I have just described will launch British Columbia onto a new path of growth and development. Its success will depend on the response to this invitation. Through partnership and cooperation we shall be able to build on the strengths of our economy to generate the jobs and incomes needed to meet the aspirations of British Columbians.

VI. Expenditure Policy

Let me turn now to a brief review of the expenditure budget. The government expects to spend $9.056 billion in 1985/86, including $558 million associated with the economic renewal program. Despite this major fiscal injection to bolster our economic base, total expenditure is estimated to increase only 3.5 per cent from the latest forecast for the current year.

The efforts of the last three years to improve the efficiency of government, to control costs while maintaining essential services and, where necessary, to redirect taxpayers' funds to meet public goals more effectively, have proved successful. We can now see the benefits from the restraint program and experience the dividends through reduced taxes and economic renewal initiatives.

A major factor in the success of restraint has been the equitable functioning of the Compensation Stabilization Program. The flexibility built into the program has enabled more than 2,000 compensation plans to be settled in the public sector under the voluntary guidelines. The Commissioner has never found it necessary to impose a settlement under the compulsory regulations. For all of 1984, public sector plans approved under the program showed average increases of 2.1 per cent compared to average settlements of 2.5 per cent in the private sector. A continuation of this trend in settlements is required if the government is to maintain control over expenditure growth and provide scope for future reductions in taxes.

Although the emphasis in this budget is on job creation, the government is maintaining a strong commitment to essential social programs. Expenditure on health, education and social services in the coming year will exceed $6.3 billion, for an increase of 6.9 per cent from the estimates for 1984/85. Over 70 per cent of total expenditure is allocated to these programs, compared to 65 per cent five years ago.

Health care continues to be of major importance to the government. The health budget will rise by 5.0 per cent to $2.677 billion. New acute care, extended and intermediate care beds will be opened in several communities throughout the province.

The government assigns a high priority to preventive health programs, which can reduce future pressure on other parts of the health care system. These will receive an increase of 6.5 per cent to accommodate higher utilization. Emergency health services will also be improved through the replacement of an additional 50 ambulances, at a cost of $1.8 million.

There has recently been some public comment reflecting the fact that the government is increasing spending on health care at a faster rate than on education. One important reason for this difference in growth rates, often overlooked by critics, is the aging of the province's population. Since

1980 the total increase in the province's population has been nine per cent, while the number of people aged 65 or over has increased by 19 per cent. On average, people in this age group require health care expenditure that is more than five times that of younger people, representing a major source of pressure on health services.

Over the same period there has been a decrease of two per cent in the population between the ages of 6 and 24. This changing age composition has clearly affected relative requirements for the different program areas.

If our funding allocation failed to reflect the reality of these changes in our population, our programs would inevitably become less responsive to the needs of the people we serve.

In the coming year we shall continue to fulfill our commitments under the federal-provincial Established Programs Financing arrangements for the provision of health care and post-secondary education to our residents. It is sometimes incorrectly suggested that the EPF arrangements require the provinces to allocate expenditure on these programs in fixed proportions. The proportions usually referred to represent an arbitrary division of federal contributions, unchanged since 1975/76 when these programs were funded on a cost-shared basis. The federal legislation imposes no such allocation on the provinces, and if the provinces were required to maintain such an outdated allocation provincial programs would become increasingly less relevant to the needs of provincial residents. In 1985/86, as in each and every year since the EPF program was introduced, federal contributions to British Columbia under this program will represent less than 50 per cent of our expenditure on health care and post-secondary education.

The government has maintained over the last 10 years a strong commitment to funding education in the province. Compared to the level of spending of 10 years ago, expenditure on education in 1985/86 will show an increase of 125 per cent.

Education funding to the province's school districts next year will be provided in accordance with the fiscal framework system with two important additions.

As a result of adjustments, school districts have been notified that they will be provided with $25.6 million more in 1985/86 than was contemplated when the framework was introduced.

This ensures that sufficient funding is provided for essential service levels for a quality education. However, school boards now have the opportunity to increase their annual operating budgets above the fiscal framework level, provided that the increase is approved by a majority of the local electorate voting in a special referendum.

In common with other programs of the government, the schools fiscal framework provides no funding for negotiated salary increases in 1985.

For post-secondary colleges and institutes, there will be no reduction in total funding from 1984/85. A special allocation of $12.7 million is included in their funding to support high priority employment training programs in cooperation with the federal government, and to allow the institutions to make program adjustments.

The university system in our province, and throughout Canada, is faced with difficult issues as it seeks to carry out its function more effectively. At the request of my colleague, the Minister of Universities, Science and Communications, the Universities Council of British Columbia and the three universities are reviewing all university programs and developing a five-year academic plan. This plan will emphasize the strengthening of the institutions through building on areas of excellence.

As in the case of colleges, there will be no reduction in total university funding in 1985/86. Included is a special allocation of $14.9 million to assist our universities in becoming more responsive and effective institutions. This allocation will be used for initiatives to strengthen priority programs, and to meet phase-out costs associated with reductions in less essential, low demand programs. Details of this arrangement will be announced by my colleague.

The encouragement of academic excellence is an important aim of the provincial government and the university community. To provide additional support to graduating university students showing high academic achievement and demonstrated financial need, the government has allocated $1.0 million for an expanded provincial scholarship program in the coming year. This will take the form of a provincial loan remission program which will reward performance. The Minister of Education and the Minister of Universities, Science and Communications will administer this program for university students, including those who transfer from the college system. In the coming year, the government will examine the possibility of extending scholarships to other post-secondary graduates.

Social services will receive increased funding for 1985/86 as the government maintains its commitment to provide income assistance. The amount to be paid out in GAIN benefits is expected to increase by approximately 2 per cent.

Costs under the Pharmacare program continue to increase rapidly. An increase in the annual deductible amount under the universal component of the program from $175 to $200 will provide some saving, but I note that the costs next year will be more than twice the level of five years ago.

This budget includes additional funds for a worthwhile program providing services primarily to recipients of income assistance. A major problem for many single parents is that they do not receive regular and adequate maintenance payments from their spouses for the support of their children. The Ministries of Human Resources and Attorney General have introduced a Family Support Program to help income assistance recipients to obtain maintenance payments. This program will be extended from Richmond, where it was first introduced as a pilot program, to the City of Vancouver. Actions in family court may be required to ensure that maintenance payments are received. The Ministry of Attorney General will receive an additional $700,000 in the coming year to provide support for the costs related to this program.

As a result of decisions taken by the federal government there will be an increase in funding allocations for programs required to meet the provisions of the federal *Young Offenders Act*. Operating costs for new facilities, additional staff, and contracting of community-based services are expected to cost over $30 million in the coming year.

The government wishes to improve the stability of revenues available to municipalities under the Revenue Sharing program. Fluctuations in provincial revenue are reflected in the transfers to municipalities under the current revenue sharing formula. Although this has enabled municipalities to share in revenue upswings in the past, the experience of recent years has been difficult.

After discussions among the Union of British Columbia Municipalities, the Ministry of Municipal Affairs and the Ministry of Finance, the government has decided to propose a stabilization mechanism to retain a portion of the revenue for distribution in future years. The Minister of Municipal Affairs will introduce the necessary legislative measure.

There will be a small increase in the funds available under the Revenue Sharing program for distribution in the coming year. A total of $204 million will be allocated to municipalities and a further $31 million will be retained in the Fund for future stabilization purposes.

The Ministry of Lands, Parks and Housing will be examining its Crown land use policies in the coming year to ensure that they are relevant to current conditions and that the process for review of applications is minimized. The pricing policy for Crown land is also being reviewed, including lease rates for marina operators and agricultural land.

Additional measures are being taken to reduce the cost and administrative burden of government. The Ministry of Consumer and Corporate Affairs has now completed arrangements for the partial self-regulation and licencing of the brokerage, insurance and real estate industries. The government will continue to receive a portion of the licencing fees and will be relieved of some administrative costs.

The reorganization of the central government personnel function in the Ministry of Provincial Secretary and Government Services will save over $2 million in the coming year. Legislation to establish the new personnel division was passed at the last session.

In its search for ways to improve services to the public, the government is continuing to extend the computerization of records.

- Administrative controls over the GAIN program will be strengthened through the use of computer terminals for immediate updating of client records. Savings are estimated at $2.7 million in 1985/86.

- Access to information in the Central Registry of the Ministry of Consumer and Corporate Affairs will be improved through the development of an on-line computer system which will permit more efficient use of existing staff.

- Mineral and petroleum records in the Ministry of Energy, Mines and Petroleum Resources are being computerized with savings both in staff and other costs for the government and improved service to industry.

- The Land Titles Branch of the Ministry of Attorney General will be provided with an additional $2.8 million to accelerate the computerization of its records. Annual net savings of approximately $1.6 million are expected on full completion throughout the province in two years time.

These initiatives demonstrate that governments can improve services and efficiency, while still reducing program costs.

Duplication of services between the Ministry of Labour and the Workers' Compensation Board will be eliminated by the transfer of the Occupational Environment Branch to the Board. The Workers' Compensation Board has made excellent progress in improving efficiency and controlling costs over the last two years, permitting a reduction in the unfunded liability and a freeze in assessment rates for 1985.

The government will provide $1.4 million in the coming year, through the Ministry of Energy, Mines and Petroleum Resources, for the natural gas extension assistance program. Provincial grants, together with federal contributions, will enable line extensions to be constructed in the Shuswap area.

The Ministry of Agriculture and Food will provide special financial assistance, estimated at $2.8 million, to farmers in the Peace River region who have suffered severe crop losses in 1984.

During the past year, the government made the decision to establish the British Columbia Lottery Corporation in Kamloops. An estimated $4 million will be injected into the province as a result of this move. More than 100 jobs will be created in that area once the Lottery Corporation is fully staffed. Additional benefits will be provided through the purchase of computer hardware from British Columbia manufacturers and suppliers.

The government's contribution to public transit in the province for 1985/86 will be $74.3 million. No provision is made for the operating costs of the ALRT system in the coming fiscal year, as it is planned to capitalize net costs for the start-up period until March 31, 1986. Beginning in 1986/87 the operating costs of ALRT will be shared among the riders, local government and the provincial government.

VII. Revenue Policy

I have already outlined a significant number of taxation and revenue policy measures in describing the Economic Renewal Program. I now propose to present a series of additional measures to simplify and improve the tax system and to generate some additional revenue.

Central to this package of measures is a new Consumer Taxation Amnesty Program.

Over the past few years a disturbing trend has been observed in British Columbia and elsewhere: a growing number of businesses have been failing to remit to the government the taxes collected from their customers. These public monies, collected in trust for the government, have instead been retained for use by the businesses. Another problem is the growing frequency of situations where businesses or individuals who purchase taxable items such as cars or boats are not paying the tax owing on these purchases.

I emphasize that the businesses or individuals who consciously withhold taxes collected, or fail to pay taxes due, represent a very small proportion of the total. Nonetheless, the practice has been increasing and cannot be allowed to continue if the integrity of our tax system is to be maintained. Clearly, we have a duty to the vast majority of businesses and individuals, who are complying fully with the legislation, to ensure that the non-complying minority are not able to abuse their position of trust.

The Consumer Taxation Amnesty Program, which will commence midnight tonight and end on June 30, 1985, is designed to encourage businesses and persons who have not paid or remitted taxes, to voluntarily disclose and pay these amounts.

During this amnesty period, any taxes which were due prior to today and have not been reported to the Consumer Taxation Branch, can be paid with only interest added to the amount of tax owed. No penalties will be applied nor prosecution undertaken if such taxes are voluntarily disclosed and paid under the amnesty program. All voluntary disclosures will be treated in strictest confidence.

At the end of the amnesty, new penalty and fine provisions will become effective. In cases where a vendor has collected tax from consumers but wilfully withheld it from the government, the penalty will increase from 10 per cent to 100 per cent of the tax which has not been remitted. This is a significant increase, but these taxes represent funds collected from consumers, and held in trust for the people of the province.

Where a taxable purchase has been made by a business or individual and the purchaser has consciously made a false statement or wilfully avoided paying the tax, the penalty is increased from 10 per cent to 25 per cent of the tax which has not been remitted.

In other circumstances, such as late tax returns where the business has already received one warning notice within a twelve month period, the penalty will remain at the current 10 per cent rate.

In addition to these changes in penalties, I shall be introducing legislation which will make provision for the Courts to impose significant fines for fraudulent evasion of tax.

Mr. Speaker, the amnesty, and increased penalties and fines at the end of the amnesty period, will apply to the *Social Service Tax Act*, *Hotel Room Tax Act*, *Tobacco Tax Act*, *Gasoline (Coloured) Tax Act*, *Gasoline Tax Act*, and *Motive Fuel Use Tax Act*.

In this budget, we have adopted many measures to assist the business community. Business must also be responsible and ensure full compliance with the tax legislation which applies to all residents of British Columbia. The amnesty will provide a period of grace for individuals and businesses to get their affairs in order and the increased penalties will ensure that this very important component of the province's revenue base is protected.

Other administrative measures to be introduced include the following:

- Effective midnight tonight, the maximum period subject to audit under the *Social Service Tax Act* and the *Gasoline (Coloured) Tax Act* is reduced from ten years to six years except for wilful evasion of tax. In my view it is unreasonable for vendors or taxpayers to be expected to retain the detailed business records required for sales tax audits for more than six years.

- Effective midnight tonight, purchases by non-residents of vehicles and aircraft which are registrable will be given point of sale exemption from social service tax. To ensure that British Columbia businesses are able to compete with other jurisdictions for sales of these items to non-residents, this exemption at the time of purchase will replace the current complex provision for a rebate of tax.

- Effective for the 1986 revised assessment roll, the impact on a property's actual value of the restrictions contained in some Crown leases will be incorporated into the calculation of the assessed value. Since restrictions on use contained in some Crown leases in non-municipal areas are analogous to municipal zoning, the impact on property values of these restrictions should be recognized.

- During this session, it is my intention to introduce legislation to consolidate the three existing fuel tax statutes. One of the often repeated requests from persons presenting views during my public meetings was for all levels of government to simplify taxation legislation. The consolidation of these statutes is a step in the right direction.

- Over the coming year, the government will investigate the feasibility of instituting an identification card system for bona fide farmers to ensure the farm purchase exemption under the social service tax is restricted to those whom the exemption is intended to benefit and to eliminate unnecessary paperwork for businesses and government.

- Over the next few months I intend to review the application of the social service tax to sales and leases of assets between individuals and companies which have a close relationship. This area of taxation is complex and all points must be considered carefully. Until this review is completed the current regulations will apply.

I am also proposing to introduce a series of minor administrative measures, which are described in the appendices to this document.

In addition to these administrative changes, a number of tax changes are required to achieve equity and revenue objectives. The following sales tax changes will be introduced:

- Effective midnight tonight, a new temporary use provision will be introduced under the *Social Service Tax Act* for specified equipment used for seismic studies or petroleum and natural gas exploration and development. This change in the method of collecting tax will address a specific problem in the northeastern region of the province and will encourage more efficient use of drilling equipment in our oil and gas exploration industry.

- Effective midnight tonight, returnable milk bottles will be exempt from social service tax.

- Effective midnight tonight, propane and natural gas used by farmers for grain drying will be exempt from social service tax.

- Effective midnight tonight, portable buildings will be taxed on the cost of the component materials rather than on the sale or lease price of the building.

- Effective with the first monthly billing period commencing on or after April 1, 1985, charges for pay television will be subject to social service tax. Basic cable television charges will remain exempt from tax.

- Effective April 1, 1985, British Columbia Railway Company and its subsidiaries will be subject to fuel, social service and hotel room taxes. Exemption from taxation was initially provided in 1912 and, with last year's financial restructuring of this important Crown corporation, the Railway is now able to pay these taxes as does any other efficient business.

- Effective April 1, 1985, the tax rate on cigarettes, cigars and packaged tobacco will increase by 10 per cent. This measure will increase revenue from this tax by $15 million in 1985/86. The existing ad valorem adjustments on March 1 and September 1 of each year will continue.

In the area of assessments and property taxation, the following changes are proposed:

- Legislative provision will be made for municipalities to exempt non-profit occupiers of school buildings from property tax.

- Provisions permitting long-time owners of non-conforming residential property to enjoy the benefits of assessment at residential values will be broadened to provide this benefit to all persons who have owned and occupied non-conforming property for 10 years or more. This is an adjustment to the so-called 1959 rule.

- As has previously been announced by the government, legislation will be introduced exempting ALRT from property tax for the 1985 and subsequent taxation years.

- Since the nations and companies who will come to Expo 86 will be our guests for only a few months, the Expo 86 site will be exempt from property taxation effective the 1985 taxation year.

- Effective the 1986 taxation year, holders of grazing licenses and other short-term tenures will be exempt from property tax on that land.

- Effective the 1986 taxation year, manure storage facilities will be exempt from property tax in order to provide an incentive to improve environmental management in the agricultural industry.

- Effective the 1986 taxation year, certain recreational land will be taxed under a Class 8 designation rather than a Class 6 designation and the name of Class 8 will be changed to Recreation Property/Non-Profit Organization. This change will substantially reduce the level of tax on recreational land by taxing it at the same rate as residential land.

- For the 1986 taxation year, the minimum property tax payment will be raised from $175 to $200 per year for those property owners who do not qualify for the supplementary homeowner grant. For those who qualify for the supplementary grant, including the elderly, the minimum tax will remain at $1 per year.

- For the 1986 taxation year, rural property tax rates will increase from $1.30 per thousand dollars of value to $1.40 per thousand dollars of value.

Under the *Income Tax Act*, provisions will be introduced to ensure that provincial personal income tax payable does not exceed federal tax payable for low income taxpayers for the 1985 taxation year.

With respect to the *Corporation Capital Tax Act*, effective April 1, 1985, banker's acceptances will be included in the tax base. These instruments are increasingly being used to avoid payment of the tax and during the period this tax is being phased out it is appropriate to include them in the tax base.

Under the *Insurance Premium Tax Act*, the following taxation changes will be proposed:

- Effective January 1, 1986, the general insurance tax rate will increase from 2 to 3 per cent. Premiums for life, accident and sickness insurance will continue to be taxed at the 2 per cent rate.

- Effective January 1, 1986, insurance premium tax will be phased-in for marine insurance policies for pleasure boats at a rate of 1 per cent, increasing to 2 per cent effective January 1, 1987, and to 3 per cent effective January 1, 1988.

- Effective for 1985, provincial business licence fees levied in non-municipal areas are abolished. These fees are not required for any provincial administrative purpose and their abolition will reduce the regulatory burden of government on the private sector.

Mr. Speaker, this rather long list of administrative and taxation changes reflects those from among the numerous suggestions I received during my public meetings which I identified as beneficial for the equity and fairness of the provincial tax system.

VIII. Conclusion

At this point I wish to reflect on the path which has brought us to this day. We in British Columbia have been tested and found equal to a difficult challenge. We have made the sacrifices and shared the burden and in so doing made possible the new measures for job creation I have just announced.

Some three years into a difficult adjustment period we are all aware that we had to face fundamental changes. Because British Columbia is reliant on international resource markets which are particularly affected by the adjustment, economic conditions have been worse in our province than for many other regions of the world. But we are not alone. One can look to Alberta, to Texas, to Washington State and Oregon, or to virtually any regional economy dependent upon natural resources, and see shades of the same adjustment problems.

We should, however, have confidence that our economic difficulties will not prevail indefinitely. The past few years have taught us to respect the unpredictability of human events. Problems which seem insurmountable can quickly fade into obscurity. Opportunities which seem limitless can evaporate as events pass them by. I am not suggesting that we ignore our problems, but if we look beyond them we shall see that British Columbia remains one of the truly favoured regions of the world. Despite slow growth and high unemployment, people continue to move to our province.

The most fundamental source of optimism for British Columbians lies in what we have achieved together in three short years, and in the very substantial steps we are now taking toward economic renewal. We have restored the cost of government to a level which is affordable in a more competitive world economy and we have done it in a manner which has preserved our most vital social programs. We have made an adjustment which many others have yet to face, reacting to the recession firmly and quickly, and we are now able to undertake economic programs and initiatives which otherwise would not have been possible. We are able to recognize in a substantial and tangible way the critical priority which must now be attached to the enhancement of our economic base.

Economic renewal means jobs, it means a more stable and growing economy and it means financial security for British Columbians. Through major taxation reforms, programs to develop new industry, and investments in our resource base and our public capital facilities, the provincial government is providing leadership for the tasks ahead.

For this program of economic renewal to succeed, and get British Columbians back to work, there must be an effective partnership. Cooperation from the national government will be essential to make the program complete. Local governments will also play a key partnership role at the community level.

While concerted action by the three levels of government is necessary, it is not enough. Business and labour must complete the alliance. New investment is essential to expand production capacity, enhance competitiveness, and diversify into new product and service lines. Industrial relations must achieve new levels of cooperation and stability. Compensation demands must reflect a recognition that now is not a time to pursue catch-up or seek enrichment.

Until employment stability and renewed economic strength is achieved, all partners must endorse the principle of equal commitment. Competition for larger shares will destroy the basis for recovery that is so essential to the entire province.

New measures to create employment for our citizens have been made possible through a realistic program of restraint. Our business taxes are being brought in line through reductions targeted toward encouraging the private sector to perform its vital role of creating jobs and economic activity.

This budget provides key elements in the framework for economic renewal. The challenge is to use them to create a better future for all British Columbians.

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Table 1

Operating Transactions and Net Equity
Consolidated Revenue Fund

	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86
	($ millions)		
Operating Transactions:			
Revenue	7,344.3	7,776.0	8,166.0
Expenditure	8,363.9	8,746.0	8,498.0
Economic Renewal Program	—	—	558.0
Total Expenditure	8,363.9	8,746.0	9,056.0
Surplus (Deficit)	(1,019.6)	(970.0)	(890.0)
Net Equity (Net Deficiency) at Year End:			
Opening Balance	536.1	(483.5)	(1,453.5)
Surplus (Deficit) for the Year	(1,019.6)	(970.0)	(890.0)
Closing Balance	(483.5)	(1,453.5)	(2,343.5)

Operating revenue is estimated to increase by 5.0 per cent from the revised forecast for 1984/85 to $8,166 million for 1985/86. The revenue estimate includes the impact of measures introduced in the budget which are expected to reduce 1985/86 operating revenue by $48 million.

Operating expenditure is expected to increase by 3.5 per cent from the revised forecast for 1984/85 to $9,056 million for 1985/86. Included in the expenditure estimate is $558 million of estimated expenditure associated with the economic renewal program as well as $88 million in additional grants to school districts to offset the decrease in revenue resulting from budget measures which will reduce non-residential school property taxes.

The deficit for 1985/86 is estimated at $890 million, a decrease of $80 million from the revised forecast for 1984/85. By March 31, 1986, the excess of financial liabilities over financial assets, or net deficiency, is estimated at $2,344 million.

Table 2

Summary of Financial Transactions
Consolidated Revenue Fund

	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86
	($ millions)		
Financial Requirements			
Operating Transactions:			
Revenue	7,344.3	7,776.0	8,166.0
Expenditure	8,363.9	8,746.0	9,056.0
Surplus (Deficit)	(1,019.6)	(970.0)	(890.0)
Net Receipts from (Disbursements for) Financing Transactions	(18.2)	47.0	9.0
Net Receipts from (Disbursements for) Working Capital Transactions	249.3	(37.0)	68.0
Total Direct Financial Requirements	(788.5)	(960.0)	(813.0)
Financial Sources			
Direct Borrowing	950.8	1,814.7	1,660.6
Less: Funds reloaned to Crown corporations	237.8	938.7	860.6
Net direct borrowing for government purposes	713.0	876.0	800.0
Decrease in Cash and Temporary Investments	75.5	84.0	13.0
Total Direct Financial Sources	788.5	960.0	813.0

The provincial government's own financial requirements for 1985/86 are estimated at $813 million. Requirements to finance the deficit of $890 million are expected to be partially offset by a net cash inflow from financing and working capital transactions totalling $77 million.

Net direct borrowing of the provincial government is expected to total $1,661 million during 1985/86. Of this amount, $800 million will be required for government purposes and $861 million will be reloaned to Crown corporations.

Table 3

Summary of Source and Application of Funds
Consolidated Revenue Fund

	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86
	($ millions)		
Source of Funds:			
Revenue	7,344.3	7,776.0	8,166.0
Net Direct Borrowing:			
For government purposes	713.0	876.0	800.0
On behalf of Crown corporations	237.8	938.7	860.6
	950.8	1,814.7	1,660.6
Financing Transactions Net Receipts (Disbursements)	(18.2)	47.0	9.0
Decrease (increase) in Working Capital	324.8	47.0	81.0
Total Source of Funds	8,601.7	9,684.7	9,916.6
Application of Funds:			
Expenditure	8,363.9	8,746.0	9,056.0
Funds reloaned to Crown corporations	237.8	938.7	860.6
Total Application of Funds	8,601.7	9,684.7	9,916.6
Financing Transactions Net Receipts (Disbursements):			
Decrease (increase) in mortgages outstanding	(14.9)	(4.1)	(36.5)
Decrease (increase) in investments and advances to Crown corporations	(35.0)	12.4	12.2
Decrease (increase) in property under development	11.1	5.4	6.0
Decrease (increase) in other assets	20.6	33.3	27.1
Total Financing Transactions Net Receipts (Disbursements)	(18.2)	47.0	9.0
Change in Working Capital:			
Decrease (increase) in accounts receivable	(128.3)	78.7	8.6
Decrease (increase) in amounts due from Crown corporations	(22.5)	(58.0)	30.0
Decrease (increase) in prepaid program costs	3.1	(4.4)	(2.5)
Decrease (increase) in inventories	2.6	(7.2)	(4.0)
Increase (decrease) in accounts payable	173.5	(71.2)	20.6
Increase (decrease) in amounts due to Crown corporations	127.4	10.1	4.2
Increase (decrease) in deferred revenue	93.5	15.0	13.1
Decrease (increase) in working capital other than cash and temporary investments	249.3	(37.0)	68.0
Decrease in cash and temporary investments	75.5	84.0	13.0
Total decrease (increase) in Working Capital	324.8	47.0	81.0

This table provides details of major flows of funds for 1985/86. Sources of funds are expected to total $9,917 million including revenue of $8,166 million, net borrowing of $1,661 million, financing transactions receipts of $9 million and a decrease in working capital of $81 million. These funds will be used to meet estimated expenditure of $9,056 million. An additional $861 million will be reloaned to Crown corporations.

Table 4

Revenue by Source
Consolidated Revenue Fund

	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86	Increase (Decrease) 1984/85–1985/86
	($ millions)			(per cent)
Taxation Revenue:				
Personal income	1,818.8	1,853.0	2,005.0	8.2
Corporation income	309.5	359.0	415.0	15.6
Social service	1,201.3	1,329.0	1,441.0	8.4
Fuel	421.1	471.0	443.0	(5.9)
Other	312.8	343.0	374.0	9.0
	4,063.5	4,355.0	4,678.0	7.4
Natural Resource Revenue:				
Petroleum and natural gas	333.3	342.0	301.0	(12.0)
Minerals	31.6	55.0	61.0	10.9
Forests	130.9	141.0	154.0	9.2
Water	172.0	189.0	204.0	7.9
Other	10.9	11.0	12.0	9.1
	678.7	738.0	732.0	(0.8)
Other Revenue:				
Sales and services	183.6	201.0	193.0	(4.0)
Licences and permits	83.5	170.0	179.0	5.3
Interest	77.1	108.0	92.0	(14.8)
Miscellaneous	79.4	58.0	63.0	8.6
	423.6	537.0	527.0	(1.9)
Contributions from Government Enterprises:				
Liquor Distribution Branch	351.5	360.0	390.0	8.3
Contributions from Federal Government:				
Established Programs Financing	928.5	1,058.0	1,104.0	4.3
Canada Assistance Plan	543.7	576.0	614.0	6.6
Fiscal Stabilization Program	139.0	24.0	—	—
Other	161.5	127.0	121.0	(4.7)
	1,772.7	1,785.0	1,839.0	3.0
Non-Recurring Revenue	54.3	1.0	—	—
TOTAL REVENUE	7,344.3	7,776.0	8,166.0	5.0

Consolidated Revenue Fund revenue for 1985/86 is estimated to total $8,166 million, an increase of 5.0 per cent from the revised forecast for 1984/85. The estimate includes the impact of measures announced in the budget which are expected to reduce revenue by $48 million.

Taxation revenue is expected to increase by 7.4 per cent to $4,678 million. Personal income tax revenue is expected to increase by 8.2 per cent during 1985/86 to $2,005 million. Corporation income tax revenue, estimated at $415 million for 1985/86, shows an increase of 15.6 per cent over 1984/85 but is still well below the $580 million received during 1981/82. Social service tax revenue is expected to increase by 8.4 per cent during 1985/86 to $1,441 million as a result of an expected increase in consumer expenditure and business investment. As a result of the reduction in fuel tax rates announced in the budget, fuel tax revenue is expected to decline by 5.9 per cent during 1985/86.

Natural resource revenue for 1985/86 is expected to be slightly less than for 1984/85. The decline in petroleum and natural gas revenue is expected to more than offset increases in revenue from other natural resources.

Contributions from the federal government are expected to increase by 3.0 per cent during 1985/86. Increases in Established Programs Financing cash contributions and Canada Assistance Plan contributions are expected to more than offset the decline in other federal contributions.

Table 5

Expenditure by Ministry
Consolidated Revenue Fund

	Estimates 1984/85[1]	Revised Forecast 1984/85[1]	Estimates 1985/86	Increase (Decrease) 1984/85–1985/86[2]
	($ millions)			(per cent)
Legislation	9.4	9.0	10.5	16.7
Auditor General	3.5	3.5	3.7	5.7
Ombudsman	1.9	1.9	2.0	5.3
Premier's Office	0.7	0.7	0.7	—
Agriculture and Food	107.7	106.5	107.0	0.5
Attorney General	344.2	368.8	367.4	(0.4)
Consumer and Corporate Affairs	19.0	20.4	19.2	(5.9)
Education	1,355.9	1,360.8	1,428.2	5.0
Energy, Mines and Petroleum Resources	23.6	26.8	25.9	(3.4)
Environment	92.5	94.5	100.0	5.8
Finance	59.2	58.9	58.7	(0.3)
Forests	252.5	246.0	259.3	5.4
Health	2,540.5	2,564.8	2,666.9	4.0
Human Resources	1,279.6	1,430.7	1,464.3	2.3
Industry and Small Business Development	28.1	22.7	34.4	51.5
Intergovernmental Relations	2.4	2.4	2.6	8.3
International Trade and Investment	3.9	3.9	7.9	102.6
Labour	58.0	53.0	54.2	2.3
Lands, Parks and Housing	84.7	78.7	91.5	16.3
Municipal Affairs	212.5	214.4	212.3	(1.0)
Provincial Secretary and Government Services	134.8	141.2	155.9	10.4
Tourism	7.9	7.0	8.5	21.4
Transportation and Highways	569.1	757.7	1,047.0	38.2
Universities, Science and Communications	340.3	340.3	344.5	1.2
Other Appropriations:				
Economic and Regional Development Agreement	—	—	65.0	—
Student Employment Programs	10.0	9.0	10.0	11.1
Transit Services	75.5	63.0	74.3	17.9
Interest on Public Debt	237.6	265.0	384.1	44.9
Contingencies	50.0	35.0	50.0	42.9
Historic Debt Servicing — British Columbia Railway Company	15.0	29.4	—	—
Payment to the British Columbia Railway Company	470.0	430.0	—	—
TOTAL EXPENDITURE	8,390.0	8,746.0	9,056.0	3.5

[1] For comparative purposes, the 1984/85 estimates and the 1984/85 revised forecast have been restated to be consistent with the 1985/86 estimates.

[2] The percentage change is based on the difference between the 1984/85 revised forecast and 1985/86 estimates.

Consolidated Revenue Fund expenditure for 1985/86 is estimated at $9,056 million, an increase of 3.5 per cent from the revised forecast for 1984/85.

The expenditure estimates include $558 million of expenditure for the Economic Renewal Program as follows:

• Ministry of Agriculture and Food	— International food marketing exhibition and assistance to the food service sector and primary producers	$4.3 million
• Ministry of Environment	— Water management capital construction projects	$4.0 million
• Ministry of Forests	— Forest road construction, silviculture and forest management projects	$12.0 million
• Ministry of Industry and Small Business Development	— Grants to entities investing in Small Business Venture Capital Corporations and expenditures to aid in the development of special enterprise zones	$8.3 million
• Ministry of Lands, Parks and Housing	— Parks development, capital projects and maintenance programs	$6.0 million
• Ministry of Transportation and Highways	— Construction of the Coquihalla Highway and Fraser River Crossing at Annacis Island	$456.1 million
• Ministry of Universities, Science and Communications	— Enhancement of the Discovery Enterprise Program which provides grants for science and technology proposals	$2.3 million
• Economic and Regional Development Agreement (Federal/Provincial Agreement)	— Grants for industrial and tourism development, forestry development, science and technology development, agriculture and rural and mineral development	$65.0 million

The expenditure estimates for the Ministry of Education include $88 million in additional direct grants to school districts to offset the decrease in revenue resulting from reductions in non-residential property taxes which will result from the measures introduced in this budget.

Table 6

Balance Sheet
Consolidated Revenue Fund

As at March 31,	Actual 1984	Revised Forecast 1985	Estimate 1986
		($ millions)	
Assets:			
Cash and temporary investments	207.0	123.0	110.0
Accounts receivable	743.1	664.4	857.8
Amounts due from Crown corporations	95.4	153.4	123.4
Mortgages	265.1	269.2	305.5
Prepaid program costs	85.4	89.8	92.3
Inventories	42.8	50.0	54.0
Loans to Crown corporations	237.8	1,176.5	2,037.1
Investments in and advances to Crown corporations	282.3	269.9	257.7
Property under development	53.4	48.0	42.0
Other assets	305.2	271.9	244.8
Total Assets	2,317.5	3,116.1	3,924.6
Liabilities:			
Accounts payable	640.6	569.4	590.0
Amounts due to Crown corporations	141.7	151.8	156.0
Deferred revenue	184.8	199.8	212.9
Direct debt			
For government purposes	1,596.1	2,472.1	3,272.1
On behalf of Crown corporations	237.8	1,176.5	2,037.1
Total Direct Debt	1,833.9	3,648.6	5,309.2
Total Liabilities	2,801.0	4,569.6	6,268.1
Net Equity (Net Deficiency)	(483.5)	(1,453.5)	(2,343.5)
Total	2,317.5	3,116.1	3,924.6
Contingencies and Commitments			
Guaranteed debt	12,755.1	11,740.0	11,368.0
Trust Funds Under Administration	9,760.9	11,800.0	13,800.0

At March 31, 1986, it is estimated that the financial assets of the government will total $3,924 million while financial liabilities will total $6,268 million. As a result, the excess of financial liabilities over financial assets or net deficiency, at March 31, 1986, is estimated at $2,344 million.

During 1985/86, direct debt of the government is expected to increase by $1,661 million to $5,309 million. Of this total, $3,272 million will have been incurred for government purposes, while the remaining $2,037 million will have been incurred on behalf of Crown corporations. Government borrowing on behalf of Crown corporations enables them to obtain funds at lower rates of interest than would otherwise be possible. Crown corporations remain responsible for the debt servicing costs and repayments of principal for debt borrowed on their behalf by the government.

In addition, Crown corporations and agencies incur debt on their own behalf which is guaranteed by the provincial government as to principal, premium, if any, and interest. At March 31, 1986, net guaranteed debt is estimated to total $11,368 million, down slightly from March 31, 1985. Total Crown corporation net debt including both debt issued by the provincial government on behalf of Crown corporations and guaranteed debt is therefore estimated to total $13,405 million at the end of 1985/86.

Trust funds under administration do not form part of the Consolidated Revenue Fund. It is estimated that they will increase to $13.8 billion by March 31, 1986. Public sector pension funds and the reserve funds of the Workers' Compensation Board are the main components.

Table 7

Government and Crown Corporation Borrowing Requirements and Sources of Funds

	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86
	($ millions)		
BORROWING REQUIREMENTS:			
Gross Direct Borrowing — Government[1]	750.7	907.0	1,038.0
Crown Corporation Borrowing[2]			
Commercial:			
British Columbia Hydro and Power Authority	804.6	681.2	297.0
British Columbia Development Corporation	(1.0)[3]	25.0	24.6
British Columbia Place	63.9	56.0	40.0
British Columbia Railway Company	170.0	1.3[4]	—
Economic Development:			
British Columbia Ferry Corporation	(15.2)[3]	—	—
British Columbia Housing and Employment Development Financing Authority	177.0	—	—
British Columbia Transit	275.3	332.1	346.3
Expo 86 Corporation	43.7	161.9	280.0
Other	14.0	7.2	4.1
Social and Government Services:			
British Columbia Buildings Corporation	45.9	45.0	—
British Columbia Educational Institutions Capital Financing Authority	80.4	21.4	26.0
British Columbia Regional Hospital Districts Financing Authority	95.4	52.4	38.9
British Columbia School Districts Capital Financing Authority	131.1	54.0	22.0
British Columbia Systems Corporation	(2.7)[3]	7.0	2.3
School Districts, Colleges and Universities[5]	—	7.0	15.0
Total Crown Corporation Borrowing	1,882.4	1,451.5	1,096.2
TOTAL BORROWING REQUIREMENTS	2,633.1	2,358.5	2,134.2
SOURCES OF FUNDS:			
Canada Pension Plan Investment Fund	374.7	360.0	353.6
Trusteed Funds	16.3	1,998.5	1,780.6
Private Issues	471.0		
Public Issues	1,771.1		
TOTAL SOURCES OF FUNDS	2,633.1	2,358.5	2,134.2

[1] Includes borrowing for current financial requirements and borrowing to meet debt repayments and sinking fund contributions. Excludes amounts borrowed by the government and loaned to Crown corporations on identical terms. These amounts are included with Crown corporation borrowing.

[2] Includes borrowings in U.S. funds at the equivalent in Canadian dollars.

[3] Amounts in parentheses represent net reductions in short-term debt.

[4] Includes the $200 million of government guaranteed preferred share financing of BC Rail Ltd. which is a public corporation controlled by the British Columbia Railway Company.

[5] Short-term interim capital construction financing obtained under the Certificate of Approval Program. Upon completion of the capital projects, the Financing Authorities will replace the short-term financing with long-term financing.

Government and Crown corporation gross borrowing is estimated to total $2,134 million during 1985/86, down from $2,359 million expected for 1984/85.

Gross borrowing for government purposes, estimated at $1,038 million, consists of $800 million in borrowing to meet direct financial requirements in 1985/86 and $238 million to meet scheduled debt repayments and sinking fund contributions.

Gross borrowing for Crown corporations and agencies, estimated at $1,096 million, is comprised of $488 million in net borrowing and $608 million to meet scheduled debt repayments and sinking fund contributions.

Further details of government and Crown corporation borrowing are provided in Appendix G: Provincial Government and Crown Corporation Financing.

GLOSSARY OF TERMS[1]

Assets — are financial claims of the government upon outside parties and items held for resale. Specific assets include cash and temporary investments, accounts receivable, amounts due from Crown corporations, inventories, prepaid program costs, mortgages, loans to Crown corporations, investments in and advances to Crown corporations, property held for development and other assets. Fixed assets such as buildings, roads and bridges, furniture and most Crown land are reported at a nominal value of $1.

Cash and Temporary Investments — include investments and short-term interest-bearing deposits held to meet the day-to-day obligations of the government.

Consolidated Revenue Fund — consists of the General Fund and Special Funds. The General Fund comprises the main operating accounts of the government. Special Funds represent earmarked revenues and funds set aside from the General Fund for specific purposes.

Deferred Revenue — consists of amounts received prior to a year-end that will be earned and recorded as revenue in future years.

Direct Debt — this liability consists of funds borrowed by the government to finance its operating requirements or to facilitate cash management, as well as funds borrowed on behalf of Crown corporations under the authority of the *Financial Administration Act.*

Expenditure — consists of the obligations incurred by the government for goods, services and grants during the fiscal year. Under the modified accrual accounting policy of the government, expenditure is recorded when the expense is incurred rather than when a cash payment is made, with the exception of expenditure for certain employee benefits including sick leave and vacation which is recorded when paid.

Financing Transactions — are transactions which affect the composition of assets and liabilities but are not considered to be revenue or expenditure and therefore do not affect net equity. For example, the Provincial Home Acquisition Special Account provides mortgage loans to home owners. When a loan is issued, the cash balances of the government are reduced while mortgage assets are increased. When the home owner repays the mortgage principal, cash balances are increased and mortgage assets are decreased.

Guaranteed Debt — consists of borrowings by government enterprises, local governments or others, for which the principal, premium, if any, and interest are guaranteed by the government. Funds borrowed directly by the government and reloaned to Crown corporations are not considered guaranteed debt.

Liabilities — are claims payable by the government to outside parties, including accounts payable for goods, services and grants, amounts due to Crown corporations, deferred revenue and direct debt.

Loans to Crown corporations — are assets of the government, being loans made with funds borrowed directly by the government for that purpose in accordance with the provisions of the *Financial Administration Act.* The liability arising from direct government borrowing on behalf of Crown corporations is matched by the assets (loans to Crown corporations) created when the funds are loaned to Crown corporations.

Net Equity (Net Deficiency) — net equity is the excess of financial assets over financial liabilities of the government at a specific date. A negative amount for net equity is referred to as net deficiency, and indicates that financial liabilities exceed financial assets. The surplus (deficit) for a particular accounting period causes a corresponding increase (decrease) in net equity.

Operating Transactions — include revenue and expenditure transactions of the government, reported in accordance with the modified accrual basis of accounting.

Other Assets — consist mainly of investments in long-term securities and loans and repayable advances made through various government programs.

Prepaid Program Costs — consist of payments disbursed prior to the year-end for program costs that will be incurred and recorded as expenditure in future years.

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[1] Further information regarding the terms used in the government's financial statements is available in the Public Accounts.

Revenue — consists of money earned by the government from taxation, resource levies, the sale of goods and services, fees and licences, fines and penalties, interest, liquor distribution profits and contributions arising from agreements with other governments. Under the modified accrual accounting policy of the government, revenue is reported when earned rather than when received, with the exception of taxes on income and federal contributions for Established Programs Financing which, except in cases of known adjustments, are reported when received because of the uncertainty involved in their estimation.

Surplus (deficit) — represents the excess of revenue over expenditure (expenditure over revenue) for a given period.

Trust Funds Under Administration — are funds held and administered by the government for third parties and not subject to appropriation by the Legislature. Included are trust deposits, superannuation and pension funds, sinking funds and miscellaneous trust funds.

Working Capital — consists of those assets and liabilities which are generally short-term in nature. Specifically, working capital is the sum of cash and temporary investments, amounts due from Crown corporations, prepaid program costs and inventories less the sum of accounts payable, amounts due to Crown corporations and deferred revenue.

Working Capital Transactions — are changes to the working capital items.

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A. Economic Outlook for British Columbia

Overview of 1984

British Columbia's economy improved in the second half of 1984 recording a moderate upward trend in output and employment. For the full year, strong economic growth in the United States and Japan, the province's two major foreign export markets, caused export shipments from British Columbia's major industries to rise slightly from the levels of the preceding year.

The abundant supply of natural resource products from both developed and developing countries caused commodity prices to remain low in comparison with similar periods of recovery in the past. Prices received by British Columbia producers for most commodities in 1984 were lower than in 1983, preventing any significant improvement in their financial strength, which had deteriorated severely during the world recession of 1981-82.

Exports of pulp and paper were strong, following a 10-week shutdown in the industry in the first quarter of the year. Lumber shipments continued at the high level of the previous year, but recorded price declines averaging 13 per cent. Markets for metallic minerals were weak and, although coal exports increased sharply as a result of the first year of shipments of Northeast coal, prices of coal and natural gas were under downward pressure.

The value of retail sales increased by more than the rate of inflation for the first time since 1981, although increases in personal incomes were low and unemployment continued at a high level. Business investment is estimated to have shown no increase over 1983 because of low profit levels, unused production capacity, high interest rates and efforts to rebuild corporate financial strength.

There were some positive economic developments during 1984, which are reflected in the improved outlook for future years. The inflation rate of four per cent was the lowest in the 14 years that the Vancouver Consumer Price Index has been available, and wage settlements moderated further, declining to an average level of 2.3 per cent for 1984. An uptrend in employment which commenced in May resulted in an increase of 30,000 people employed by December 1984.

For the year as a whole, it is estimated that real growth in the provincial economy was 0.5 per cent.

The External Environment

The United States economy strengthened in 1984. Real economic growth was at a 33-year high of 6.9 per cent, as consumer spending, business investment and government spending continued to grow strongly. These factors more than offset the effect of the large trade deficit caused by growing demand for imports and the relatively high value of the United States dollar.

United States housing starts, which have a significant impact on British Columbia lumber exports, rose slightly from 1.7 million in 1983 to 1.74 million in 1984, but this strength was not reflected in lumber prices, which declined slightly for British Columbia producers.

Real gross national product in the United States is forecast to rise 3.3 per cent in 1985 and 2.2 per cent in 1986. United States housing starts are forecast at 1.7 million in 1985 and 1.6 million in 1986, assuming there is no significant increase in interest rates. Japan's economy is expected to grow 4.5 to 5.0 per cent in 1985 and approximately 4 per cent in 1986, providing opportunities for growth in British Columbia exports.

The major industrial economies of Europe recorded growth rates of between 2 and 3 per cent during 1984, a much better performance than had been forecast. Currency developments had a major effect as the rising value of the United States dollar caused a sharp increase in European exports to the United States. The outlook for the European economies is better than it has been for a number of years. In 1985, West Germany, the United Kingdom and Italy are forecast to grow at rates of 2.5 to 3.0 per cent and France at 2.0 per cent.

British Columbia Outlook

The British Columbia economy is expected to gain strength in 1985 and 1986 as personal incomes, retail sales and capital investment are forecast to expand in real terms, following three years of decline or low growth. Exports are forecast to record a further modest increase. The construction and operation of Expo 86 will have a significant impact on the provincial economy in both 1985 and 1986. British Columbia's real gross domestic product is expected to increase 2.5 per cent in 1985 and 3.0 per cent in 1986.

Although real interest rates are expected to remain relatively high in 1985 and residential construction fairly weak, non-residential construction and business investment are forecast to strengthen, partly in response to the initiatives included in the Economic Renewal Program. Total investment spending is expected to increase 5 per cent in real terms in 1985 and 5.5 per cent in 1986.

Retail sales are forecast to increase 2.4 per cent in real terms in both 1985 and 1986, the first significant growth since 1980. A decline in personal savings and increased tourist traffic in 1986 should cause an expansion of retail activity.

British Columbia's inflation rate was below the Canadian rate in 1984 for the third year in a row, and should remain at approximately the same level over the next two years. Wage settlements remain below the rate of inflation and there appear to be no major sources of inflationary pressure building.

Employment growth in 1985 and 1986 is forecast to exceed the increase in the labour force for the first time since 1981, causing modest declines in the unemployment rate in each year.

The goods-producing industries are expected to provide the basis for growth in 1985, with their real output increasing 3.0 per cent. The pulp and paper industry is expected to increase output above the level recorded in 1984, which was affected by a 10-week shutdown. Mineral fuels (mainly coal) are also expected to record an increase in output, but low prices and demand continue to prevent recovery for the rest of the mining industry. Construction and utilities are forecast to improve in 1985 on their weak performance in 1984.

Real output of the service sector is forecast to grow 2.1 per cent in 1985, led by transportation and communications, wholesale and retail trade, and financial, insurance and real estate services. Stronger employment growth than in 1984 is expected to stimulate the service-producing industries.

Risks to the Forecast

The outlook in the preceding section is the provincial government's assessment of the most probable course of events in 1985 and 1986. Therefore, the numbers presented in Table A1 should be considered as midpoints of a range of likely outcomes. Unexpected external developments affecting the provincial economy could cause significantly different actual outcomes. Downside risks to the forecast include the following:

- Interest rates could rise more than expected, particularly if measures to reduce budget deficits in the United States are regarded as unsatisfactory by the financial markets. In this case, fears that future United States budget deficits would have to be financed by excessive money creation could lead to higher real interest rates.
- The growth of protectionism in the industrial countries, particularly the United States, is a major source of concern. To a large extent, recent pressures for protection are the result of the high value of the United States dollar, not unfair competition. Nevertheless, if significant protectionist measures were to be instituted by the United States, they could have a severe impact on the British Columbia economy.

Developments that would produce a more favourable outlook for the British Columbia economy include:

- Larger-than-expected increases in key commodity prices would have a positive impact on corporate earnings, wages and salaries, retail sales and other measures of economic activity in the province. This would also strengthen corporate balance sheets and lead to a more favourable investment outlook.
- A further major currency realignment in which the Canadian dollar declined significantly in value against the currencies of major overseas trading partners would have a positive impact on British Columbia's export industries, provided that it did not simply translate into higher wage settlements or dividend payouts.

Conclusion

In spite of the potential risks the overall outlook for the British Columbia economy indicates that a resumption of moderate growth can be expected for 1985 and 1986.

Table A1

British Columbia Economic Indicators

	1983	1984	1985[f]	1986[f]
Real Gross Domestic Product	1.5	0.5[e]	2.5	3.0
Capital Investment	−8.1	0.0[e]	9.0	10.0
Retail Sales	4.2	4.3	6.5	7.0
Vancouver Consumer Price Index	5.5	4.0	4.0	4.5
Population 15 and Over	1.6	1.8	1.5	1.4
Labour Force	1.4	1.5	1.5	1.7
Employment	−0.6	0.4	2.4	2.5
Unemployment Rate	13.8	14.8	14.0	13.3
Other Forecasts of Real Gross Domestic Product				
Conference Board of Canada		1.1[f]	2.3	2.7
Royal Bank of Canada		1.0[f]	1.5	2.4

[e] Ministry of Finance estimate
[f] forecast

B. Revenue Measures

Table B1

Summary of Revenue Measures

	Effective Date	Revenue Effects 1985/86	1986/87	1987/88
			($ millions)	
British Columbia Railway Act				
British Columbia Railway Company and its subsidiaries subject to fuel, social service and hotel room tax	April 1, 1985	+12.0	+12.5	+13.0
Business Licence Act				
Non-municipal area business licence fees abolished	January 1, 1985	−0.5	−0.5	−0.5
Corporation Capital Tax Act				
Corporation capital tax phased out over three years for all corporations, except major banks with head offices outside British Columbia:				
• 1985 — $5 million deductible	April 1, 1985	−3.0		
• 1986 — $10 million deductible	April 1, 1986		−33.0	
• 1987 — elimination of tax	April 1, 1987			−60.0
All banker's acceptances included in tax base	April 1, 1985	+5.0	+5.0	*
Gasoline Tax Act, Gasoline (Coloured) Tax Act				
Tax rates for coloured motor fuels and aviation fuel reduced to 7 per cent of the pre-tax selling price of gasoline. The tax rate for marine bunker fuel lowered to 7 per cent of the pre-tax selling price of bunker fuel	March 15, 1985	−55.0	−57.0	−60.0
Income Tax Act				
Two year small business employment tax credit equivalent to approximately $300 for each employee of a small business corporation	Taxation years commencing after March 31, 1985	*	−75.0	−75.0
Venture capital tax credit established for purchasers of newly issued common shares in small business venture capital corporations	1985 taxation year	−5.0[1]	−5.0	−5.0
British Columbia low income notch provision extended with respect to the health care maintenance surtax and the federal tax reduction	January 1, 1985	*	−1.0	−0.5

* Less than $100,000.

[1] Vote 46 (Economic Renewal: Special Initiatives) contains $8.0 million for Small Business Venture Capital Corporation grants to non-taxable entities equivalent to the tax credit for individuals and corporations.

Table B1

Summary of Revenue Measures—*Continued*

	Effective Date	Revenue Effects 1985/86	1986/87	1987/88
			($ millions)	
Insurance Premium Tax Act				
General insurance tax rate increased from 2 to 3 per cent	January 1, 1986	*	+5.8	+6.0
Marine insurance for pleasure craft taxed at:				
• 1 per cent in 1986	January 1, 1986	*		
• 2 per cent in 1987	January 1, 1987		+0.1	
• 3 per cent in 1988	January 1, 1988			+0.2
Property Taxation				
Assessment Act				
Machinery and equipment assessments frozen; no new machinery and equipment added to the assessment roll after September 30, 1984	September 30, 1985[2]	−0.4	−1.9	−3.8
Special assessment provisions for long-time owners of non-conforming residential property extended	July 1, 1985	*	*	*
Grazing licences and other short-term Crown tenures exempted from property tax	September 30, 1985[2]	*	*	*
Specified recreational property added to Class 8 designation	September 30, 1985[2]	−0.2	−1.0	−1.0
Municipal Act				
Provision established for municipalities to exempt non-profit occupiers of school buildings from property tax	January 1, 1985	−0.1	−0.1	−0.1
Manure storage facilities exempted from assessment and property tax	September 30, 1985[2]	*	−0.1	−0.1
Vancouver Charter				
Manure storage facilities exempted from assessment and property tax	September 30, 1985[2]	*	*	*
Provincial-Municipal Partnership (Taxation Measures) Act				
Provision established for non-residential school tax reduction for new industrial improvements in:				
• participating municipalities, and	Date prescribed by agreement	−0.2	−1.6	−4.0
• non-municipal areas	Date prescribed by regulation	*	−0.4	−1.0
Taxation (Rural Area) Act				
Rural property tax rate increased from $1.30 to $1.40 per $1,000 of actual value	January 1, 1986	+0.2	+1.0	+1.0
Manure storage facilities exempted from assessment and property tax	September 30, 1985[2]	*	−0.1	−0.1

* Less than $100,000.

[2] Effective for the September 30, 1985 revised assessment roll and 1986 and subsequent property taxation.

Table B1

Summary of Revenue Measures—*Continued*

	Effective Date	Revenue Effects 1985/86	1986/87	1987/88
			($ millions)	
Education (Interim) Finance Act				
Non-residential school machinery and equipment tax rate reduced by:				
• ⅓ in 1985	January 1, 1985	−68.8		
• ⅔ in 1986	January 1, 1986		−123.8	
Taxation of machinery and equipment eliminated in 1987	January 1, 1987			−165.0
Reduction of non-residential school tax rates for industrial and commercial properties:				
• 3:1 non-residential/ residential tax ratio	January 1, 1985	−15.5		
• 2.45:1 non-residential/ residential tax ratio	January 1, 1986		−41.3	
• 2:1 non-residential/ residential tax ratio	January 1, 1987			−87.0
Home Owner Grant Act				
Minimum real property taxes increased from $175 to $200 per year for property owners not qualifying for the supplementary home owner grant	January 1, 1986	+1.0	+1.0	+1.0
British Columbia Transit Act				
ALRT exempted from property tax	January 1, 1985	−2.0	−5.0	−5.0
Expo 86 Corporation Act				
Expo 86 site exempted from property tax	January 1, 1985	−0.8	−3.0	−3.8
Social Service Tax Act				
Specified items purchased for use in the aquaculture industry exempted	March 15, 1985	−0.2	−0.3	−0.4
Specified items consumed or used by firms in the manufacture or servicing of goods exempted	March 15, 1985	−3.0	−3.0	−3.0
Temporary use provision established for specified equipment used for seismic studies or petroleum and natural gas exploration and development	March 15, 1985	*	*	*
Propane and natural gas used by farmers for grain drying exempted	March 15, 1985	−0.1	−0.1	−0.1
Returnable milk bottles exempted	March 15, 1985	*	*	*
Portable buildings taxed on cost of component materials	March 15, 1985	−0.4	−0.4	−0.4
Charges for pay television taxed (basic cablevision remains exempt)	First billing on or after April 1, 1985	+1.5	+1.6	+1.7
Tobacco Tax Act				
Tax rate on cigarettes, cigars and packaged tobacco increased by 10 per cent	April 1, 1985	+15.0	+15.5	+16.0

* Less than $100,000.

Table B1

Summary of Revenue Measures—*Continued*

	Effective Date	Revenue Effects 1985/86	1986/87	1987/88
			($ millions)	
Water Act				
Water rental fees for hydro-electric power generation frozen for five years, beginning 1985	January 1, 1985	−15.3	−28.5	−43.0
Total Revenue Measures		−135.8	−339.6	−479.9
Allocation of Revenue Measures:				
Revenue Reduction, Consolidated Revenue Fund		−47.8	−161.5	−209.3
Expenditure Increase, Consolidated Revenue Fund Recoveries re: Non-Residential School Property Tax		−88.0	−178.1	−270.6
Total		−135.8	−339.6	−479.9

SUPPLEMENTARY INFORMATION: REVENUE MEASURES

British Columbia Railway Act

Social service, fuel and hotel room tax exemptions for the British Columbia Railway Company and its subsidiaries will be eliminated, effective April 1, 1985. These exemptions were initially established in 1912 and are no longer financially necessary for the railway's operation.

Business Licence Act

The provincial business licence fees levied in non-municipal areas will be abolished effective for 1985. Elimination of these fees will simplify and reduce the tax burden for businesses in non-municipal areas.

Corporation Capital Tax Act

Tax Phase-Out

The corporation capital tax is levied on every corporation which maintains a permanent establishment in the province and which has borrowed or invested capital (paid up capital) in excess of $1 million. Of the approximately 75,000 active corporations in the province, 10,200 currently pay the tax. The present tax rates are 2 per cent of paid up capital for chartered banks with paid up capital over $500 million, 0.8 per cent for other banks, 0.6 per cent for trust companies and 0.2 per cent for all other taxable corporations.

Commencing April 1, 1985, the corporation capital tax will be phased out over three years for all corporations currently taxed at the rate of 0.2 per cent, trust companies taxed at 0.6 per cent, banks taxed at 0.8 per cent and major banks with headquarters in British Columbia.

The phase-out will be accomplished by replacing the current $1 million exemption with a $5.0 million deduction from paid up capital on April 1, 1985 and a $10.0 million deduction on April 1, 1986. This will remove the tax from 5,600 of the 10,200 corporations currently paying tax at the end of the first year of the phase-out and an additional 2,400 corporations at the end of the second year of the phase-out. On April 1, 1987, the tax will be eliminated for all corporations except major banks with headquarters outside British Columbia.

Banker's Acceptances

Commencing with corporation fiscal years ending on or after April 1, 1985, the tax base for corporation capital tax will be amended to include all banker's acceptances. This change will ensure consistent treatment of similar debt capital instruments.

Gasoline Tax Act, Gasoline (Coloured) Tax Act

Effective March 15, 1985, the tax rates applied to off-road use of motor fuels and aviation fuel will be reduced to 7 per cent of the pre-tax selling price of gasoline. In the case of marine bunker fuel, where the selling price is substantially different from that of gasoline, the tax will be 7 per cent of the pre-tax selling price of that fuel. The quarterly ad valorem adjustment system will continue for these fuels.

Prior to this change, tax rates for aviation fuel, marine bunker fuel, coloured gasoline, coloured diesel fuel and fuel used by farmers and commercial fishermen ranged from approximately 10 to 20 per cent. This reduction in tax rates to 7 per cent will result in these fuels being taxed at a rate equivalent to that for goods subject to the 7 per cent social service tax. The following table shows the former and new rates:

CHANGES IN PROVINCIAL FUEL TAX RATES EFFECTIVE MARCH 15, 1985

	Former Rate (cents/litre)	New Rate (cents/litre)	Change (cents/litre)
Aviation fuel	5.37	2.95	−2.42
Marked gasoline	5.37	2.95	−2.42
Marked diesel	5.37	2.95	−2.42
Marked propane, butane	5.37	2.95	−2.42
Marked gasoline and diesel for farmers and fishermen	4.27	2.95	−1.32
Marked bunker fuel	4.19	1.65	−2.54

Income Tax Act

Small Business Employment Tax Credit

A refundable small business employment tax credit will be introduced for two years to help offset fixed payroll costs borne by incorporated small businesses. This credit will reduce the cost of hiring a new employee and should, therefore, stimulate employment in the small business sector. The credit will be available to small business employers regardless of whether or not they have any taxable income.

The average credit which can be claimed will be approximately $300 per year per employee. The maximum credit which can be claimed by a single employer will be restricted to $11,250 per year.

The value of the credit to eligible employers will be based on the following formula where the total salaries and wages in a taxation year do not exceed $750,000:

$$\frac{\text{Total salaries and wages paid in British Columbia}}{\$\ 20{,}000} \times \$300 = \text{Annual Credit}$$

For small business corporations paying between $750,000 and $850,000 in total salaries and wages in a taxation year, a reduced tax credit will be available.

The small business employment tax credit will be payable in respect of salaries and wages paid in the first two taxation years commencing after March 31, 1985.

Small Business Venture Capital Act

Venture capital tax credits and grant incentives for investors of equity capital in venture capital corporations will be introduced to assist the development of small businesses in British Columbia.

Equity capital will first be placed in a venture capital corporation which, in turn, will provide equity to small businesses engaged in manufacturing and processing, tourism, research and development and aquaculture.

A corporation which invests in venture capital corporations will be provided a venture capital tax credit equal to 30 per cent of the equity received by the venture capital corporations. Individuals who invest in venture capital corporations will be permitted a venture capital tax credit equal to 30 per cent of the equity received by the venture capital corporations, but will be limited to a maximum credit of $60,000 in any one year. Individual investors will, however, be permitted a refund to the extent this venture capital tax credit exceeds British Columbia tax otherwise payable.

The program also provides for grants to specified investors who are not subject to the *Income Tax Act* and who otherwise would not be able to avail themselves of the program.

The program will commence in the 1985 taxation year.

Extension of Provincial Low Income Notch Provision

The British Columbia low income notch provision provides for a reduction of British Columbia income tax payable for low income individuals. The low income notch provides that British Columbia tax payable does not normally exceed federal tax payable.

This provision is being extended effective for the 1985 taxation year to include the health care maintenance surtax within the low income notch provision. In addition, all taxpayers claiming all, or a portion of, their spouse's unused federal tax reduction will now be eligible to reduce their provincial tax payable under the low income notch provision.

These two measures will reduce British Columbia tax payable for many low income British Columbians and should also eliminate the need for many British Columbians to file income tax returns.

Insurance Premium Tax Act

General Insurance Tax Rate

Effective January 1, 1986, the insurance premium tax rate for general insurance premiums will increase from 2 to 3 per cent. The tax increase will not take effect until January 1, 1986 in order to allow insurance companies to plan for the rate increase when establishing annual premiums. The present 2 per cent tax rate will continue to apply to premiums for life, sickness, personal accident and loss of salary and wages insurance.

Marine Insurance for Pleasure Craft

Marine insurance premiums for pleasure craft will be added to the general insurance tax base in 1986. This change will provide for pleasure craft premium taxation in a manner consistent with insurance premiums for other personal property. Taxation will not be extended to include commercial vessels. This tax will be phased in at a rate of 1 per cent in 1986, 2 per cent in 1987 and the general 3 per cent rate in 1988.

Property Taxation

Assessment Act

Machinery and Equipment Assessments

The assessment of all machinery and equipment will be frozen at its September 30, 1984 value. Any machinery and equipment installed after that date will not be assessed and existing machinery and equipment will not increase in value. However, provision has been made for decreasing the value of machinery and equipment in some circumstances (eg. where demolition has occurred). The tax rate applied to machinery and equipment will be reduced in 1985 and 1986. For the 1987 taxation year, machinery and equipment will not be assessed. (See *Education (Interim) Finance Act* section for information on taxation of machinery and equipment.)

Long-time Owners of Non-Conforming Residential Properties

The *Assessment Act* provides for the assessment, at residential value, of non-conforming residential property which has been continuously owned and occupied by the present owner since 1959. This provision assists owners of residential properties in areas that are undergoing redevelopment and where the use of the property does not abide by the zoning of the property.

Effective July 1, 1985, for application in the 1986 and subsequent taxation years, this provision will be extended and will be available to individuals who have owned and occupied residential property continuously for the past ten years.

Grazing Licences and Other Short-Term Crown Tenures

Effective for the 1986 taxation year, grazing licences and other short-term Crown tenures will be explicitly exempt from property taxation.

Recreational Property

Effective for the 1986 taxation year, additional types of property will be classified as recreational property (Class 8) under the *Assessment Act*. This change will provide these properties with a lower tax rate. The additions will be land used as an outdoor recreational facility for one or more of the following purposes:

- swimming
- motor car racing
- trap shooting
- archery
- ice skating
- water slides
- museums
- amusement parks
- horse racing
- rifle shooting
- pistol shooting
- horseback riding
- roller skating
- marinas
- parks and gardens open to the public

Class 8 will be renamed Recreational Property/Non-Profit Organization to reflect the revised composition of the class.

Municipal Act

Exemption of Non-Profit Leases of Schools

Effective for the 1985 taxation year, municipalities will be given the authority to exempt from property tax school district properties used by non-profit organizations. The provincial government will comply with any municipal exemption by providing an exemption from non-residential school tax. These provisions will assist organizations that are now using surplus school properties. It will also provide school districts with additional flexibility in the management of these properties.

Municipal Act/Taxation (Rural Area) Act/Vancouver Charter

Exemption of Manure Storage Facilities

Effective for the 1986 taxation year, manure storage facilities will be added to the list of pollution control facilities that are exempt from property taxation. This change will assist farmers in upgrading standards of environmental management.

Provincial-Municipal Partnership (Taxation Measures) Act

This new legislation will, together with the *Provincial-Municipal Partnership Act*, enable municipalities to participate in the provincial economic renewal program. Effective on a date prescribed by a provincial-municipal agreement, participating municipalities will reduce property taxes on new industrial improvements by 50 per cent or more, through to the end of 1990. The provincial government will match this municipal tax reduction by providing a 50 per cent reduction in non-residential school property taxes for new improvements on industrial properties in participating municipalities. Similar non-residential school tax reductions will be provided for improvements on industrial properties in non-municipal areas, on a date prescribed by regulation.

Taxation (Rural Area) Act

Rural Property Tax Rate

Effective for the 1986 taxation year, the provincial rural area tax rate for the residential and recreational property/non-profit organization classes will be increased from $1.30 to $1.40 per $1,000 of actual value. The tax rate was last raised for the 1984 taxation year. The change will affect about 260,000 properties and will result in a tax increase of $4.30 for the average rural residential property.

Education (Interim) Finance Act

Phase-Out of Tax on Machinery and Equipment

In conjunction with the freeze on machinery and equipment assessments, the property tax on machinery and equipment will be phased out over the next three years, beginning in the 1985 taxation year. The phase-out will

be accomplished by reducing the provincially levied non-residential school tax rate on machinery and equipment by one-third in the 1985 taxation year and by two-thirds in the 1986 taxation year. For 1987 and subsequent taxation years, machinery and equipment will not be assessed or taxed.

Property tax is presently applied to machinery and equipment only for school and other non-municipal purposes. Municipal taxes, which are applied only to land and buildings, will not be affected by this change.

Reduction in Non-Residential School Tax Rates

Non-residential school tax rates for industrial and business properties will be reduced over three years, beginning in 1985, to two times the typical residential tax rate. In 1985, the tax rates for industrial property will be reduced from 3.4 times the typical residential tax rate to 3.0 times this rate.

Home Owner Grant Act

The *Home Owner Grant Act* provides for the payment of a $380 grant to reduce the total real property taxes of eligible homeowners. It also provides a supplementary grant of $250 to eligible homeowners who are 65 years of age or over, or who are handicapped.

Effective for the 1986 taxation year, the minimum tax payable, after the deduction of the home owner grant, will be increased from $175 to $200 for those not receiving the supplementary home owner grant. The minimum for senior citizens and others eligible for the supplementary grant will remain at $1.00.

British Columbia Transit Act

Effective for the 1985 taxation year, the Advanced Light Rapid Transit system will be exempt from all property taxes.

Expo 86 Corporation Act

Effective for the 1985 taxation year, the Expo 86 site will be exempt from all property taxes.

Social Service Tax Act

Exemption of Aquaculture Items

Effective March 15, 1985, specified items purchased for use in the aquaculture industry will be exempt from social service tax. In order to qualify as an aquaculturist and benefit from the tax exemption, a person must hold a valid aquatic land lease provided by the Ministry of Lands, Parks and Housing, or a similar lease from the federal government, or a valid fish culture permit issued by the Ministry of Environment. In addition, the person must have a certificate from the Ministry of Environment certifying that (a) during the immediately preceding calendar year, he/she produced aquaculture products with a fair market value of more than $7,500, or (b) the Ministry has approved a management plan for aquaculture production in which the person has specified a time within which he/she expects to achieve the $7,500 production level.

As a result of this exemption, aquaculturists will be able to purchase, by signing a qualification certificate, the following items without payment of social service tax:

- declumping machines
- washing and grading machines
- seaweed and kelp harvesters
- pH meters
- temperature and salinity meters
- automatic analyzers for soil or water
- automatic feeders
- seed, seed bivalves, eggs, smolts, fry, and seed collectors
- water filters
- auxiliary generators and pelton wheels
- styrofoam, ferro cement and whole logs when used for flotation
- debyssing machines
- high pressure washers
- dissolved oxygen meters
- temperature chart recorders
- microscopes and laboratory glassware
- chemicals and pharmaceuticals
- fabric and mesh
- netting for cages and pens
- egg graders and incubators
- fish feed
- rope, chain, cable
- fish tanks

Aquaculturists may also apply for a rebate of social service tax paid for the purchase or lease of boats under 11 meters, motors and component parts used solely for aquaculture purposes.

These exemptions are similar in nature to social service tax exemptions provided to farmers and fishermen.

Exemption of Items Consumed or Used During Manufacture or Servicing of Goods

Effective March 15, 1985, specified items consumed or used by firms in the manufacture or servicing of goods will be exempt from social service tax.

The following specified items will be exempt when purchased for use in the course of business by a commercial photographer or by a person in the business of photograph processing or finishing:

- film
- chemicals used in developing film
- photographic paper

The following specified items will be exempt when purchased for use in the course of a printing or publishing business:

- typeset products
- plates
- engravings
- negatives
- transparencies
- paste ups
- signatures
- cuts
- artwork
- photographs
- film
- flats
- materials used to manufacture or produce any of the items on this list

The following specified items will be exempt when purchased for consumption or use in the course of the manufacture, production, service or repair of tangible personal property:

- abrasive paper
- steel wool
- polishing wheels
- sand when used for sand blasting
- grinding wheels and discs
- steel and glass shot
- rotary steel brushes
- molds
- jigs
- dies
- patterns

Establishment of Temporary Use Provision

Under existing provisions of the *Social Service Tax Act*, equipment brought into British Columbia, on which British Columbia tax has not been paid, is subject to full tax on the value of the equipment, regardless of the length of time that the equipment is in use in the province. Specified equipment used in the exploration for oil and natural gas is eligible for a 50 per cent remission of tax.

Effective March 15, 1985, a temporary use provision will be provided for the following specified equipment used for seismic studies or petroleum and natural gas exploration and development:

- oil and gas drilling rigs including derricks, substructures, mud tanks, engines or power plants that are part of a drilling rig, the automotive unit on which a drilling rig is mounted and replacement engines for the automotive unit;
- cementing trucks;
- acid fracturing trucks; and
- seismic recording equipment and well logging equipment including any vehicle on which the equipment is permanently mounted.

Effective March 15, 1985, the existing 50 per cent remission of tax on specified equipment used in the exploration for oil and natural gas will be removed. Persons bringing the equipment listed above into the

province for temporary use in seismic studies or petroleum and natural gas exploration and development will have two alternatives for payment of social service tax:

- payment of full social service tax on the value of the equipment, or
- payment of social service tax at the rate of 1/36th of the value of the equipment for each month or part month of use in British Columbia.

Full tax will continue to be payable if these items are brought in for permanent use in British Columbia.

Other Exemptions

Effective March 15, 1985, a social service tax exemption is provided for propane and natural gas used by farmers for grain drying. This exemption extends the existing tax exemptions provided to bona fide farmers.

Effective March 15, 1985, returnable and reusable milk bottles will be exempt from social service tax.

Portable Buildings

Effective March 15, 1985, for purposes of the *Social Service Tax Act*, portable buildings will be treated as real property and only the materials used to construct them will be subject to tax.

Pay Television

Charges for pay television will become taxable, effective for the first billing on or after April 1, 1985. Basic cablevision services will continue to be exempt from social service tax.

Tobacco Tax Act

The tax on cigarettes, loose tobacco and cigars will be increased by 10 per cent, effective April 1, 1985. The formulae which provide for an ad valorem tax adjustment for cigarettes and loose tobacco on March 1 and September 1 of each year will remain in effect.

Water Act

Current regulations under the *Water Act* provide for the annual indexation of water rental fees for power purposes. The 1985 indexing factor of 6.1 per cent was deferred in December 1984 by Order-in-Council. Further water rental fee indexation will now be deferred until 1990.

Table B2

Summary of Administrative Measures

	Effective Date
Corporation Capital Tax Act	
Related group definition replaced with the definition of associated corporations from the federal *Income Tax Act*	April 1, 1985
Gasoline Tax Act	
Tax liability clarified for aviation fuel purchased outside the province but delivered in the province to fuel aircraft in British Columbia	March 15, 1985
Gasoline (Coloured) Tax Act	
Audit period reduced from ten to six years	March 15, 1985
Gasoline Tax Act, Gasoline (Coloured) Tax Act, Motive Fuel Use Tax Act	
Legislation to be introduced to consolidate *Gasoline Tax Act, Gasoline (Coloured) Tax Act,* and *Motive Fuel Use Tax Act* into one Motor Fuel Tax Act	1985 Legislative Session
Income Tax Act	
Assessment provisions made consistent with federal Act	November 13, 1981
Property Taxation: Assessment Act	
Crown lease restrictions reflected in the calculation of a property's actual value	September 30, 1985[1]
Provision for appeals of property assessment in the second year of the two year assessment cycle broadened	September 30, 1985[1]
Provision to appoint Industrial Assessment Appeal Boards established	Set by regulation
Legislative power of British Columbia Assessment Authority to collect information reduced	September 30, 1985[1]
Taxpayers excluded from payment of costs of inquiries ordered by Assessment Appeal Board	September 30, 1985[1]
Tax exemption restored for British Columbia Railway Company properties where leases expire after close of assessment roll but before commencement of taxation year	September 30, 1985[1]
Social Service Tax Act	
Audit period reduced from ten to six years	March 15, 1985
Point of sale exemption established for registrable purchases of vehicles and aircraft by non-residents	March 15, 1985
Taxation of leases clarified	March 15, 1985
Taxation of packaged or pre-written computer software programs clarified	March 15, 1985

[1] Effective for the September 30, 1985 revised assessment roll and 1986 and subsequent property taxation.

Table B2

Summary of Administrative Measures—*Continued*

	Effective Date
Social Service Tax Act—*Continued*	
Taxation of advertising flyers delivered with newspapers clarified	March 15, 1985
Taxation of ready-mix concrete clarified	March 15, 1985
Tax liabilities on credit sales clarified	March 15, 1985
Feasibility of instituting an identification card system for bona fide farmers to be investigated	N/A
Regulation 3-14 to be reviewed	N/A
Social Service Tax Act, Hotel Room Tax Act, Gasoline Tax Act, Gasoline (Coloured) Tax Act, Motive Fuel Use Tax Act, Tobacco Tax Act	
Consumer Taxation Amnesty Program established	March 15, 1985
New penalty and fine provisions established	July 1, 1985
Purchaser assessment provision clarified[2]	March 15, 1985
Hotel Room Tax Act, Gasoline Tax Act, Motive Fuel Use Tax Act, Tobacco Tax Act	
Specific wording introduced to limit the audit period to six years	March 15, 1985

[2] No provision required in *Hotel Room Tax Act.*

SUPPLEMENTARY INFORMATION: ADMINISTRATIVE MEASURES

Corporation Capital Tax Act

The definition of related groups which has, in the past, been used to determine a corporation's taxability will be replaced with the definition of associated corporations from the federal *Income Tax Act*. Common ownership will then be treated consistently for both income and corporation capital tax.

Gasoline Tax Act

Effective March 15, 1985, the taxation of aviation fuel purchased outside of British Columbia but delivered in the province to fuel aircraft in British Columbia will be clarified. These taxing provisions will then be consistent with the taxing provisions for marked bunker fuel.

Gasoline (Coloured) Tax Act

Effective March 15, 1985, the audit period is reduced from ten to six years. The audit period will now correspond to provisions of the *Limitation Act*. As a result of this change, the requirement for purchasers and businesses to retain records will be reduced from ten to six years.

Gasoline Tax Act, Gasoline (Coloured) Tax Act, Motive Fuel Use Tax Act

Legislation will be introduced during the 1985 session to consolidate the *Gasoline Tax Act*, the *Gasoline (Coloured) Tax Act* and the *Motive Fuel Use Tax Act* into a single Motor Fuel Tax Act. Consolidation and the resulting simplification of these statutes is consistent with the reduction in tax levels for coloured motor fuels, aviation and bunker fuel.

Income Tax Act

At the request of the federal government, as provided for under the terms of the Canada-British Columbia Tax Collection Agreement, additional section references will be added to the assessment provisions of the British Columbia *Income Tax Act*. This amendment will be effective from the date the federal legislation was introduced (November 13, 1981).

Property Taxation: Assessment Act

Assessment of Crown Leases

Effective for the 1986 taxation year, property owned by an exempt owner, which is taxable in the name of the lessee, will be taxed on the basis of the value for the use which is permitted under the lease. Formerly this property was assessed at its market value.

Assessment Appeals

Effective for the 1986 taxation year, property owners will be permitted to appeal the assessment of their property in the second year of the two year assessment cycle in those cases where an appeal was undertaken by another person in the previous year. Formerly, an appeal by another person in the first year of the two year cycle would have precluded an appeal by the owner in the second year.

Industrial Assessment Appeal Boards

New legislation will permit the appointment of specialized industrial assessment appeal boards. Establishment of these boards will facilitate the resolution of complex issues related to industrial appraisal.

Assessment Information

Under existing legislation, the British Columbia Assessment Authority may require taxpayers to supply any information necessary to enable the Authority to perform its duties. Effective for the 1985 assessment roll, this requirement will be narrowed to include only information which is directly related to the value of a property and which is required to determine the actual value of the property.

Assessment Appeal Board Inquiries

Effective for the 1986 taxation year, the power of the Assessment Appeal Board to allocate the costs of inquiries, which it orders, is eliminated. This will prevent taxpayers from being required to assume the costs of inquiries by the Board after they have successfully appealed their assessment.

British Columbia Railway Tax Exemption

Since its inception, the British Columbia Railway Company has been exempt from property taxes on all property except that which it leases to other users. As a result of a technicality, the railway would have paid property tax in those situations where a lease lapsed after the completion of an assessment roll. New provisions, effective for the 1986 taxation year, prevent this occurrence.

Social Service Tax Act

Audit Period

Effective March 15, 1985, the audit period is reduced from ten to six years. The audit period will now correspond to provisions in the *Limitation Act*. As a result of this change, the requirement for purchasers and businesses to retain records will be reduced from ten to six years.

Purchases of Vehicles and Aircraft by Non-Residents

Effective March 15, 1985, purchases of vehicles and aircraft by non-residents which will be registered in another jurisdiction will be exempt from tax at the point of sale. This change will replace the present procedure of paying tax at the point of sale and then applying for a refund when the item is registered elsewhere.

Leases

Effective March 15, 1985, the Act will be clarified to apply tax to the full consideration payable on a lease contract.

Packaged or Pre-Written Computer Software

Effective March 15, 1985, the Act will be clarified to tax packaged or pre-written computer software. Custom designed software designed solely for a particular customer's needs will remain exempt from the tax.

Advertising Flyers

Effective March 15, 1985, the taxation of advertising flyers will be clarified by confirming that all flyers are taxable. Advertising flyers which are distributed door-to-door or in stores have been subject to social service tax as advertising materials, while flyers included as part of a newspaper were previously exempt from taxation.

Ready-Mix Concrete

Effective March 15, 1985, the taxation of ready-mix concrete will be clarified to ensure that tax is applied to the full selling price at the site where the product is delivered for use.

Tax Liabilities on Credit Sales

Effective March 15, 1985, an amendment will be introduced to ensure that the first money collected by a vendor from a purchaser is to be a payment on account of the tax applicable.

Card System for Farmers

During the forthcoming year, the government will investigate the feasibility of instituting an identification card system for bona fide farmers to ensure that the farm purchase exemption is restricted to those persons the exemption is intended to benefit and to eliminate unnecessary paperwork for businesses and government.

Regulation 3-14, Sales of Tangible Personal Property Between Related Parties

During the forthcoming year, a review of regulation 3-14, which deals with the taxation of sales and leases of tangible personal property between certain individuals and related business entities, will be undertaken.

Social Service Tax Act, Hotel Room Tax Act, Gasoline Tax Act, Gasoline (Coloured) Tax Act, Motive Fuel Use Tax Act, Tobacco Tax Act

Consumer Taxation Amnesty Program

An amnesty period will be established from March 15, 1985 to June 30, 1985. During this period, taxes which were due prior to March 15 and which have not been reported to the Consumer Taxation Branch may be paid with only interest added to the amount due. No penalties or prosecution will be applied where tax owing is voluntarily disclosed and paid, or satisfactory arrangements for payment are made.

Penalties and Fines

Following the amnesty period, new penalties and fines will be introduced. In cases where a vendor has collected tax from consumers but has wilfully withheld payment from the Consumer Taxation Branch, the penalty will increase from 10 per cent to 100 per cent of the tax due. In cases where a person evaded the payment of tax by wilful default or by willingly making a false or deceptive statement, the penalty will increase from 10 per cent to 25 per cent of the tax due. The penalty for late tax returns, where the business has already received one warning notice within a twelve month period, will remain at 10 per cent.

A provision for court imposed fines will be added to cover cases of wilful intent to defraud.

Purchaser Assessment Provision

Effective March 15, 1985, with the exception of the *Hotel Room Tax Act*, the above Acts will be clarified with respect to the authority to make assessments against purchasers when they have failed to pay taxes due. The Acts presently have sections providing the authority to levy taxes. However, the authority to assess is unclear. Any assessments previously made are now deemed to be valid. However, purchasers assessed from January 2, 1984 to present will be allowed to appeal the assessment within 60 days, commencing March 15, 1985.

Hotel Room Tax Act, Gasoline Tax Act, Motive Fuel Use Tax Act, Tobacco Tax Act

Audit Period

Under all consumer taxation statutes, audits will be limited to six years after the date a liability arises. Currently, no limit is stated in the above statutes. They are thus governed by the *Limitation Act* and therefore limited to six years. To make it clear to tax collectors, specific wording will be added to the tax statutes themselves. The *Social Service Tax Act* and the *Gasoline (Coloured) Tax Act* already have specific wording on this matter.

C. Impact of Business Tax Reductions

In 1983, the Ministry of Finance commissioned an independent consulting firm to estimate and compare the overall level of taxes that would be faced by representative firms from six different industries under the tax systems of British Columbia and several other jurisdictions. The results obtained from this study were published in the 1984 Ministry of Finance discussion paper, *Taxation and Economic Development: Background Information for a Consultative Process*. This comparative tax information, along with other background material contained in the discussion paper, provided a focus for the Minister of Finance's public consultations on taxation held last fall and winter.

The comparative taxation study estimated total taxes that would have been imposed in British Columbia and other jurisdictions on a representative copper mine, sawmill, machine shop, high technology manufacturing firm, trust company and hotel, based on tax systems in place on May 1, 1983. A further study, the results of which have not yet been published, has also been undertaken for a representative pulp mill.

Based on the results of the comparative taxation study, there was evidence that taxes in British Columbia, particularly those not sensitive to income levels, were somewhat higher than those in other jurisdictions. It was also suggested to the Minister of Finance during public consultations that the most beneficial form of tax relief for British Columbia businesses would be a reduction in non-income-sensitive taxes[1]. This recommendation reflects the fact that income-based tax reductions provide limited benefits to business at a time when profits are low or negative. The tax measures presented in the 1985 budget adopt this approach.

In order to measure the effect of the tax reductions contained in the 1985 budget, total non-income-sensitive taxes for the six representative British Columbia firms included in the 1983 comparative taxation study have been re-estimated. Table C1 shows the percentage reduction in these taxes for British Columbia firms which would result from full implementation of the major 1985 budget measures, including phased-in tax changes. The totals shown include federal, provincial and local non-income-sensitive taxes.

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[1] Non-income-sensitive taxes are defined as fixed taxes and taxes related to production volumes which are not affected by the profitability of a firm. These include: property taxes, capital taxes, business taxes and licences, payroll taxes, provincial and federal sales and excise taxes, and customs tariffs.

Table C1

Reduction in Annual Non-Income-Sensitive Taxes Resulting From Full Implementation of Major 1985 Budget Tax Measures for British Columbia Firms Modelled in 1983 Comparative Taxation Study

	Machine Shop	Hotel	Trust Company	Sawmill	High Technology Firm*	Copper Mine*
Non-income-sensitive taxes, May 1983 tax system	$116,000	$428,000	$121,000	$1,136,000	$36,000	$12,620,000
Non-income-sensitive taxes adjusted for 1985 budget measures	99,000	385,000	91,000	894,000	30,000	8,625,000
Reduction	$ 17,000	$ 43,000	$ 30,000	$ 242,000	$ 6,000	$ 3,995,000
Percentage reduction	14.7%	10.0%	24.8%	21.3%	16.7%	31.7%

* Calculations relate to fifth year of operations.

In the case of the machine shop, hotel, trust company and sawmill, the original study estimated taxes paid during a one-year period of operations. For these firms, the re-estimated results presented here can be directly compared to the results originally published. For the copper mine and high technology firms, the original models pertained to thirteen-year and ten-year periods respectively. For these firms the results originally published and the results presented here cannot be directly compared.

The small business employment tax credit, which is available to all small business corporations regardless of whether they declare any taxable income and which is intended to provide an offset to non-wage payroll charges, is included in the machine shop and the high technology firm estimates shown in Table C1. For most firms, the small business employment tax credit and the full impact of the phased-in tax changes will overlap for one year.

Based on the results shown in Table C1, the 1985 budget measures have significantly reduced non-income-sensitive taxes for all of the representative British Columbia firms included in the comparative taxation study. The large reductions for the copper mine and sawmill reflect the property tax reductions announced in the budget, particularly the elimination of tax on machinery and equipment, and also reflect the reduction in off-road fuel taxes. Based on the preliminary results obtained from the pulp mill study, a similar reduction in taxes will be realized by the representative British Columbia pulp mill. The reduced tax on the trust company is caused mainly by the elimination of the corporation capital tax, while the machine shop and high technology firm tax reductions can be attributed mainly to the small business employment tax credit.

In addition to these tax reductions for both new and established firms, the budget contains further incentives specifically for new investment. These include non-residential school property tax reductions for new industrial improvements in participating municipalities and in non-municipal areas, the immediate elimination of property tax for new machinery and equipment and a number of loan programs

to be administered by the Ministry of Industry and Small Business Development. Other measures to assist new investment include tax credits to encourage the establishment of Small Business Venture Capital Corporations and the creation of Special Enterprise Zones.

The 1985 budget contains measures to reduce the tax levels on existing firms and to provide incentives for new investment by business and industry. These results are consistent with submissions and suggestions made to the Minister of Finance during the fall 1984 review of taxation and economic development in British Columbia.

D. Property Taxation in British Columbia

Introduction

Property tax is a general term used to describe any tax which is applied to the value of land or to the value of improvements to land, such as buildings. Property taxation can therefore be categorized as a tax on assets as opposed to a tax on either income or consumption. This type of tax is utilized in many countries, including Canada, the United States, the United Kingdom, Australia and New Zealand. However, the definition of property and the method of valuing property varies significantly among jurisdictions.

In its simplest and most basic form, a property tax consists of a single tax rate applied to the market value of each parcel of property within a jurisdiction. In practice, however, there are a large number of variations corresponding to different theories and policies regarding the fairest and most efficient method of levying property tax.

The property tax system in British Columbia encompasses several such variations. The following sections review the system from four perspectives: the purposes for which property tax revenue is raised; the property that is taxed; the basis on which it is valued; and how different tax rates apply to different kinds of property.

Purposes For Which Property Tax Revenue Is Raised

In British Columbia property tax is used for two basic purposes: local services and public schools.

Property taxes levied for the provision of local services include municipal taxes, provincial property taxes in non-municipal areas, regional district taxes, regional hospital district taxes and taxes for the British Columbia Assessment Authority, the Municipal Finance Authority and public transit.

Municipal governments raise $670 million, about 53 per cent of their total revenue, through property tax levies to finance the provision of services such as fire protection, police protection, recreational programs, roads and public works. The provincial government levies a $40 million municipal-type tax in non-municipal areas to contribute toward the costs of road maintenance and police protection in these areas. Regional governments use the $100 million in tax which they raise to pay a portion of the cost of hospital construction and to fund services such as refuse disposal, regional parks and recreation. Assessment services, the administration of a central municipal borrowing agency and public transit are also partially financed through property taxes.

School taxes consist of both a property tax on residential property, levied by school districts, and a property tax on non-residential property, levied by the provincial government. School taxes constitute approximately half of the total property tax collected in the province. In 1984, $820 million* of the $1.6 billion* in

* Figures are calculated after deduction of Home Owner Grants.

property tax collected was used to finance the provision of public school education. A further $984 million was provided for public schools from general provincial government revenue.

All property taxes are collected in municipal areas by the municipalities and in non-municipal areas by the provincial government, and then distributed to the appropriate taxing authorities. Property tax revenue raised by the various taxing authorities is shown in the top portion of Chart D1.

The Property That is Taxed

Property is comprised of two components: land and improvements made to land. In British Columbia, the definition of land is similar for all the various tax levies but the definition of improvements varies with the purpose for which the tax revenue is used.

Municipalities and the provincial government (for provincial property taxation in non-municipal areas) utilize the general purpose tax base, which contains property valued at $101 billion*. This includes the assessed value of most of the land in the province plus the value of those improvements categorized as buildings and structures.

Regional governments and other non-municipal agencies have utilized a larger, $110 billion* tax base which includes the general purpose tax base plus the value of machinery and equipment placed permanently in one location.

The $116 billion* school tax base is slightly larger still, and encompasses certain properties owned by the British Columbia Hydro and Power Authority which are excluded from the other tax bases. This base is divided into two components: a $73 billion* residential portion which is used as the tax base of local school districts and a $43 billion* non-residential portion used to generate a portion of the provincial funding for public schools. Revenue from the non-residential school tax is allocated by the provincial government to school districts through the education funding arrangements. The magnitude of the various tax bases is shown in the bottom portion of Chart D1.

Some types of property are not included in any of the tax bases. Examples of such exempt properties are those owned by various levels of government, universities, hospitals and some charitable organizations. Exempt properties which are leased to persons who would pay tax if they owned the properties are assessed and taxed as if this person were the owner. This ensures parallel tax treatment with persons who rent property from taxable private owners, where property tax is normally recovered through lease or rental payments.

In some cases, such as for farm properties, certain categories of land and improvements are exempt for one purpose but not for another.

The Basis on Which Property is Valued

Property included in the tax bases of the various taxing authorities is generally assessed for taxation at its market value in every second year. The assessment is carried out by the British Columbia Assessment Authority and is subject to an extensive appeal procedure in order to ensure the fairest possible treatment of taxpayers.

* 1984 net assessed value

Taxpayers who disagree with the values at which their properties are assessed may appeal them, first to relatively informal Courts of Revision, then to the Assessment Appeal Board and ultimately, on certain matters, to the Supreme Court of British Columbia.

Exceptions to the general rule of assessment at market value include utility property (e.g. railways, pipelines, powerlines), farms, tree farms and some residential property in developing areas. These properties are assessed under special rules, which recognize their unique features.

How Different Property Tax Rates Apply to Different Kinds of Property

Although most property is assessed on the same basis, property tax rates vary widely among different types of property and different taxing authorities. The relationship between rates is determined, for municipal purposes, by local municipal councils and, for all other purposes, by the provincial government.

For the determination of tax rates property is divided into nine classes, the largest of which are residential property, industrial property and business/other property. Residential property is typically taxed at the lowest rate. For many taxing authorities, the tax rate on this type of property is less than one third of the rate on industrial property. The amount of tax paid by residential taxpayers is reduced by the provincial Home Owner Grant. This grant, which is intended to partially offset residential school taxes, reduces property taxes on owner occupied residences by $630 for seniors, the handicapped and recipients of War Veterans Allowances, and by $380 for all other home owners, subject to a minimum tax payment. In 1986 the minimum payments will be set at $200 for recipients of the $380 grant and at $1 for recipients of the $630 grant.

Tax rates on non-residential classes of property are generally significantly higher than those on residential property. Business and industrial property is, however, allowed a $10,000 deduction from the assessed value. This has the effect of lowering taxes, especially for small business. Table D1 shows 1984 property taxes in a typical British Columbia municipality on a house, a store and an industrial property, each with a market value of $100,000.

Table D1

1984 Property Taxes in a Typical British Columbia Municipality

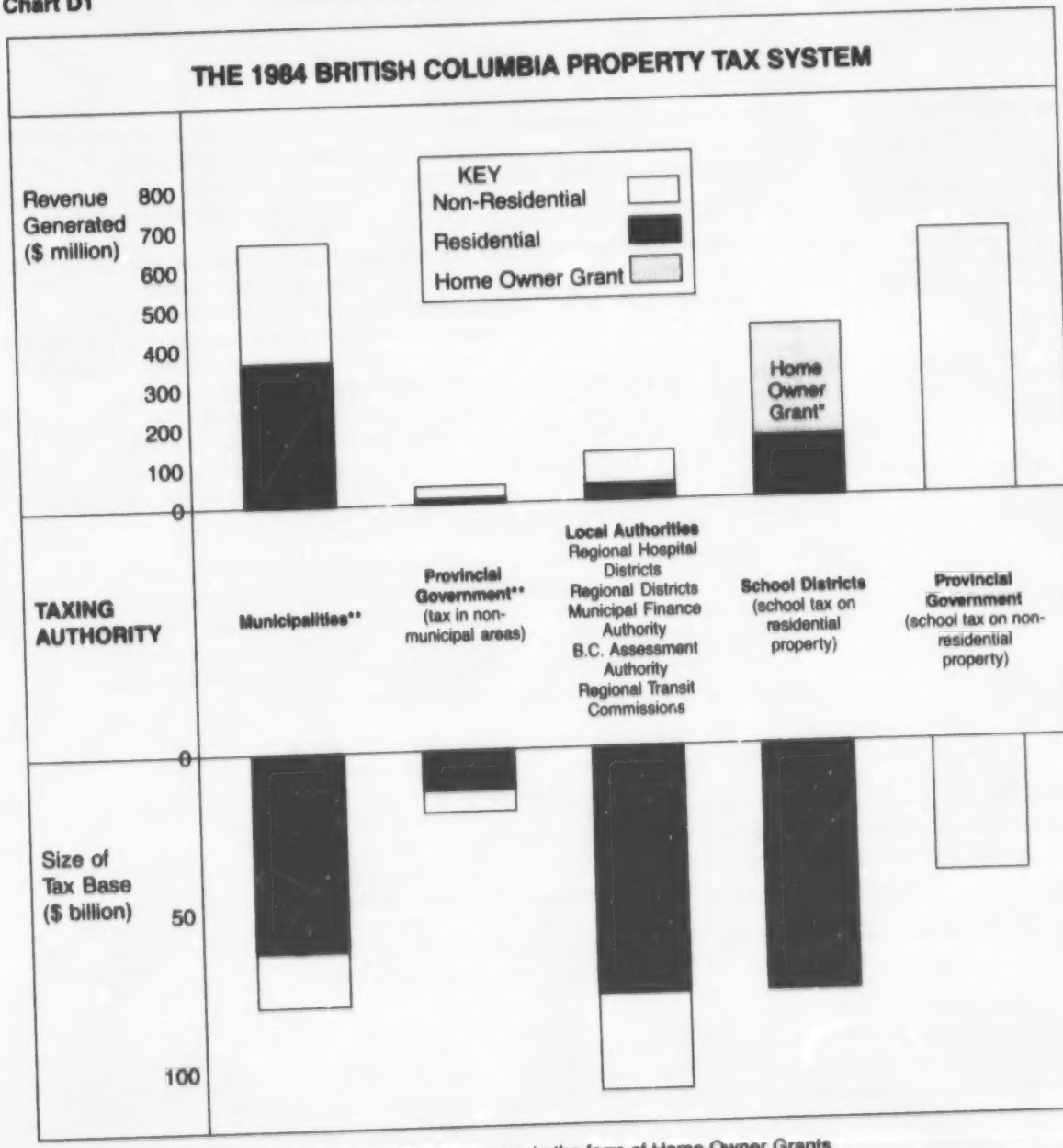
Property	Market Value ($)	Assessed Value (After Assessment Deduction) ($)	Total Tax Rate for all Purposes* ($/1,000 of Assessed Value)	Gross Tax ($)	Net Tax (After Deduction of $380 Home Owner Grant)** ($)
House	100,000	100,000	11.01	1,101	721**
Store	100,000	90,000	27.47	2,472	2,472
Industry	100,000	90,000	37.36	3,362	3,362

* As discussed in the text, this includes taxes levied for municipal purposes, school purposes, regional district purposes, regional hospital district purposes and taxes levied for the British Columbia Assessment Authority, the Municipal Finance Authority and public transit.

** Residential taxes for seniors, the handicapped and war veterans would be reduced by a further $250.

This tax rate structure meant that, in 1984, non-residential property taxpayers were estimated to pay 63 per cent of total property taxes even though this type of property represented only 37 per cent of the total assessed value of property in the province. The disproportionate share of taxes paid by the non-residential property taxpayers is illustrated on Chart D1 by comparing the relative tax bases and revenues generated from residential and non-residential property.

Chart D1



* This revenue is distributed back among home owners in the form of Home Owner Grants.
** The tax bases of the municipalities and of the provincial government (for property taxation in non-municipal areas) together form the general purpose tax base of $101 billion discussed in the text.

Major 1985 Changes to the Property Tax System

A number of changes to the property tax system are contained in the 1985 provincial budget, two of which are particularly significant. One of these changes is the elimination of all property taxes on machinery and equipment. The other change is a series of reductions in the provincial government's non-residential school tax rates. When fully implemented in 1987, these changes will reduce the annual property tax on about 90,000 non-residential properties by over $250 million. It is estimated that 70 per cent of the value of this tax reduction will accrue to the forestry and mining sectors, thereby providing an important stimulus to these sectors.

The more important of the two changes is the elimination of the tax on machinery and equipment. As discussed earlier, this type of property is not included in the general purpose tax base, but is subject to taxation by regional governments and is included in the tax base for the provincial non-residential school tax. The tax will be eliminated by phasing it out over three years, starting in 1985.

British Columbia is one of the last jurisdictions in Canada to include machinery and equipment in the property tax base. Its removal will eliminate a cost disadvantage to British Columbia industries which must compete in international markets, improve the climate for new investment in British Columbia and simplify the property tax system.

The second major change announced in the 1985 budget is the reduction in provincial non-residential school tax rates over the next three years. These rate reductions will, when fully implemented, result in a 41 per cent reduction in school tax rates on industrial property and an 18 per cent reduction in school tax rates on business property. Detailed explanations of these changes are provided in Appendix B. Table D2 shows the effect the changes will have on the examples contained in Table D1 and on an industrial property that had $10,000 worth of machinery and equipment included in it's $100,000 market value.

Table D2

Property Taxes in a Typical British Columbia Municipality
Adjusted to Show the Effect of 1985 Budget Measures

Property	Market Value ($)	Assessed Value (After Assessment Deduction) ($)	Total Tax Rate for all Purposes* ($/1,000 of Assessed Value)	Gross Tax ($)	Net Tax (After Deduction of $380 Home Owner Grant)** ($)
House	100,000	100,000	11.01	1,101	721**
Store	100,000	90,000	26.18	2,356	2,356
Industry #1	100,000	90,000	31.23	2,811	2,811
Industry #2***	90,000	80,000	31.23	2,498	2,498

* As discussed in the text, this includes taxes levied for municipal purposes, school purposes, regional district purposes, regional hospital district purposes and taxes levied for the British Columbia Assessment Authority, the Municipal Finance Authority and public transit.
** Residential taxes for seniors, the handicapped and war veterans would be reduced by a further $250.
*** Market value is $10,000 less owing to elimination of $10,000 of machinery and equipment from assessment base.

The non-residential rates are being reduced to correct a disparity between the relative tax rates on residential and non-residential property which arose during the fluctuating real estate markets of the early 1980s. The new lower rates will also increase the competitiveness of British Columbia industry and encourage new industrial investment.

The reduction in revenue from the provincial non-residential school tax will have no effect on the funding provided for the operation of public schools nor on the school tax rates on residential property. This is because the decrease in non-residential school tax revenue will be fully compensated for by an increase in contributions to school districts from provincial general revenue.

Other 1985 Changes to the Property Tax System

In addition to these two major changes, a number of other measures are being introduced to enhance the overall fairness and effectiveness of the system. These are described in Appendix B.

E. Incentives for Equity Investment

Background

At the Canadian First Ministers' Conference held in February 1985 in Regina, British Columbia proposed to the other provinces and the federal government that an incentive be introduced to encourage Canadians to invest more of their savings in shares of publicly traded Canadian companies. British Columbia called on the First Ministers to give consideration to the introduction, at the national level, of an income tax incentive to encourage individual Canadians to become first-time investors or to increase their holdings of Canadian stocks.

In putting forward this proposal, British Columbia noted that the introduction at this time of a government program to encourage Canadians to become equity investors would be very timely. After several years of real decline, business investment is beginning to grow again. In addition, personal savings rates are at an historically high level. Given these factors, it is the view of the government of British Columbia that the course of economic recovery would be positively influenced if the savings of individual Canadians were mobilized to provide an infusion of new equity to Canadian public companies.

Benefits of Increased Equity Participation By Individual Canadians

The channeling of personal savings into equity investments to finance modernization, upgrading and expansion of the country's industrial structure would have a number of benefits.

A primary benefit would be to allow Canadian industry to undertake required new investment without having to incur long-term risks associated with a heavy burden of debt. The experience of recent years, which saw many fundamentally viable companies struggling to cope with excessive debt, suggests the desirability of this course. The utilization of domestic savings to finance investment activity could also help shield Canadian industry from international economic uncertainty.

Perhaps most important, the mobilization of the savings of Canadians to finance the economic and industrial transformation of the 1980s and 1990s would instill in individual Canadians a sense of direct participation in the economic future of the country. The benefits resulting from individual Canadians having an increased sense of participation in the country's economic future would include: a greater willingness on the part of individuals to bear risk, a better general understanding of the function of profits in the economy, an increased awareness of the reality of business cycles and economic adjustments, and an enhancement of the entrepreneurial spirit of individual Canadians.

Proposal for A Canada Equity Plan

The specific proposal British Columbia has made to the First Ministers is for the implementation, at the national level, of a Canada Equity Plan. The proposed plan would have the following characteristics:

- Individuals resident in Canada who purchase newly issued common shares of a Canadian public corporation traded on a Canadian stock

exchange would be entitled to an income tax credit of 20 per cent of the purchase price of the shares.

- The maximum Canada Equity Plan tax credit available to an individual taxpayer would be restricted on an annual basis and as a percentage of taxable income (e.g., $2,000 per year not to exceed 20 per cent of taxable income).

- Canada Equity Plan tax credits would be recaptured by the tax system when plan shares are sold. The suggested credit recapture rate is 10 per cent of the selling price of plan shares with total credit repayments not to exceed the total value of all credits originally claimed by the investor. To encourage investors to hold shares for an extended period, a higher rate of credit recapture would apply for plan shares sold in the first year after purchase. Under these repayment provisions, credits would be fully recaptured in the case of plans that experienced significant capital gains but would only be partially recaptured in the case of plans that made modest gains or experienced losses.

- It is suggested the cost of the program be shared by the federal government and the provinces on a two-thirds/one-third basis.

- The annual net direct cost of the program would depend on share price movements and the number of plan participants, but would probably not exceed $100 - $200 million per year for all governments. This cost would be consistent with an infusion of $1 - $2 billion of equity investment in the economy annually.

Response of Federal Government And Other Provinces to Proposal

This proposal for a Canada Equity Plan was favourably received by other provinces and the federal government although, to date, the federal government has been unable to provide a firm commitment that the proposed program will be implemented at the national level. British Columbia is continuing to encourage the federal government to introduce a Canada Equity Plan program which would be available to all Canadian taxpayers.

The provincial government is optimistic that the federal government will respond favourably to this request. In the event, however, that the federal government does not proceed to introduce this new incentive, British Columbia is prepared to consider developing a provincial program to stimulate equity investment.

Options for British Columbia

A British Columbia equity incentive could be designed to resemble the Canada Equity Plan outlined here, or could be provided in some other form. The government would consider introducing a provincial tax credit for provincial taxpayers who invest in British Columbia companies, providing that it can be demonstrated that such a program would provide a benefit to British Columbians.

Other provincial programs designed to encourage equity investment include the Quebec Stock Savings Plan program and the small business venture capital programs which have been introduced in recent years in most provinces.

The Quebec Stock Savings Plan program allows Quebec taxpayers to make a deduction from taxable income in respect of the purchase price of eligible shares. The program has recently been restructured to target benefits to taxpayers who

invest in small and medium sized Quebec companies. Under the existing Tax Collection Agreement with Ottawa, British Columbia would be unable to mirror the Quebec plan. In addition to the Quebec Stock Savings Plan, the Quebec government has introduced changes to its securities legislation to simplify the preparation of share issues and provides a grant to help offset the costs associated with an initial share issue by a company.

Venture capital assistance programs, including the British Columbia Small Business Venture Capital program which has been introduced in this year's budget, provide an incentive for investors to purchase shares in venture capital corporations which in turn invest in eligible small businesses. Venture capital assistance programs assist small companies to raise new equity capital, but do not benefit medium-to-large sized companies.

Comments Invited

Comments from interested parties on the Canada Equity Plan proposal outlined here and on possible provincial programs to stimulate equity investment are invited. General comments on the need for equity investment incentives, and specific suggestions concerning the design of either a national or a provincial incentive program, should be forwarded to the Minister of Finance in Victoria.

F. Federal-Provincial Fiscal Arrangements

British Columbia's most important financial relationships with the federal government are defined in what are called the fiscal arrangements, as enacted in the *Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977.*

These arrangements deal with many aspects of federal-provincial fiscal relations, providing, for example, for equalization payments to help offset disparities in the ability of the various provinces to finance public services, and for stabilization payments to help compensate for major year-to-year reductions in provincial revenue caused by recession. From British Columbia's perspective, the two most important programs contained in the Act are the Established Programs Financing (EPF) arrangements, whereby the federal government contributes to the funding of health and post-secondary education, and the Tax Collection Agreement under which the federal government administers the province's personal and corporation income taxes.

Established Programs Financing

The Established Programs Financing arrangements, negotiated between the federal government and the provinces in 1976, are based on what is called the "block-funding" approach to intergovernmental transfers. Beginning in 1977/78, this arrangement replaced "cost-sharing" with the result that federal support for health and post-secondary education is not directly related to the actual cost of these provincial programs. The level of federal support is now determined by a formula which starts with a base amount—the 1975/76 federal contribution per capita to all provinces for health and post-secondary education—and escalates this amount annually in accordance with the growth in the national economy. For each province, this per capita entitlement is multiplied by the number of residents to determine the value of the total EPF envelope.

A province's total entitlement is divided between a cash transfer and a calculated "tax point transfer". To provide for this latter component, the federal government in 1977 reduced its tax rates on personal and corporation income. This enabled the provinces to implement a corresponding increase in their rates without increasing the total amount of tax paid by Canadian taxpayers. However, since the provincial governments both levy and are accountable to their residents for this income tax, the tax component of EPF is not funded from federal tax revenue and is not, therefore, considered a true intergovernmental transfer.

For each province, the difference between the total entitlement and the value of the tax point transfer is calculated for each year and paid by the federal government as a cash transfer. This means that when income tax revenue growth is strong, the cash transfer will diminish as a proportion of the total contribution. In a period of weaker tax revenue growth, the cash transfer will become more

prominent. It was originally anticipated that federal cash transfers, particularly to the western provinces, would show relatively slow growth owing to the increase in the value of the tax points associated with strong economic growth. The fundamental changes which have occurred in the world economy were not forecast at that time. Because growth in British Columbia has been weak in the past several years, the cash portion of the transfer has been rising significantly faster than the total entitlement envelope. Table F1 shows how the cash and tax point transfer portions of EPF for British Columbia have grown since 1977/78.

Table F1
The Composition of British Columbia's EPF Entitlements

Fiscal Year	Cash Transfer	Value of Tax Points Transferred	Value of Total Entitlement	Cash Transfer as a Per Cent of Total Entitlement
	($ millions)			(per cent)
1977-78	383.4	342.4	725.8	52.8
1978-79	462.6	393.0	855.6	54.1
1979-80	545.2	461.9	1,007.1	54.1
1980-81	610.3	554.8	1,165.1	52.4
1981-82	697.9	622.0	1,319.9	52.9
1982-83	770.6	634.3	1,404.9	54.9
1983-84	913.8	627.3	1,541.1	59.3
1984-85	1,011.7	667.6	1,679.3	60.2
1985-86	1,104.5	705.2	1,809.7	61.0
Average annual rate of growth 1977-78 to 1985-86 (%)	14.1	9.5	12.1	—

Note: Numbers reflect annual entitlements. Cash actually received in a given year is comprised of the estimated entitlement plus or minus prior year adjustments. Figures for the cash transfer and value of tax points transferred are estimates for the years 1982-83 through 1985-86.

Source: Federal Department of Finance.

The EPF arrangements were designed to permit greater predictability and stability of federal expenditure. In return, the provinces were to benefit from greater flexibility to manage their programs. Accordingly, few federal conditions were imposed, although provinces were required to uphold basic principles of portability, universality and accessibility in the area of health care. There were no conditions attached to post-secondary education programming.

It was understood that, from 1977 on, the provinces would bear the financial risk of cost escalation in health and post-secondary education. The federal government expressed the hope that this would encourage the provinces to manage their EPF-related programs in the most efficient and cost-effective way, as well as allowing provinces to alter priorities within the overall envelope.

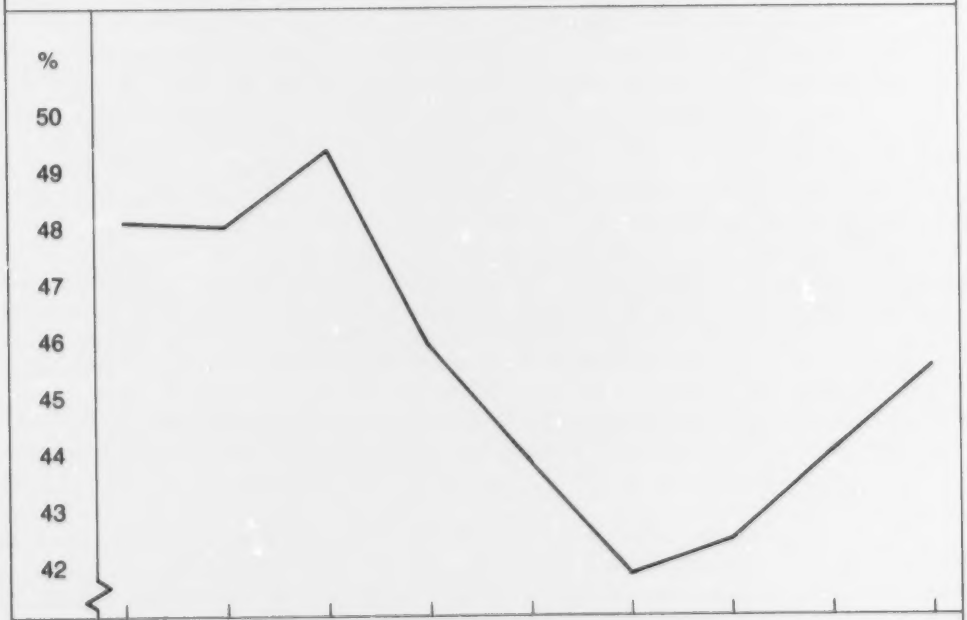
British Columbia's experience with EPF should be viewed in this light. The arrangements had not long been in place before escalating program costs resulted in a continuous decline in the proportion of provincial spending covered by the federal EPF contribution. In other words, provincial costs were increasing

faster than the EPF transfer, which was limited to growing at the rate of the national economy. The problem was compounded in 1982/83 when the federal government unilaterally altered the formula to reduce provincial entitlements.

At the same time, other provincial revenue sources weakened sharply due to the international recession, a problem which was particularly acute in the resource producing provinces like British Columbia.

This situation clearly required provincial action to control expenditure increases. The government of British Columbia responded in 1982 with the restraint program. Chart F1, showing the value of the total federal EPF contribution as a proportion of provincial expenditure on health and post-secondary education, illustrates how spending restraint began slowly to rectify a growing imbalance in funding shares provided by the two levels of government.

Chart F1 **THE FEDERAL EPF CONTRIBUTION AS A PROPORTION OF TOTAL BRITISH COLUMBIA EXPENDITURE ON POST-SECONDARY EDUCATION AND HEALTH CARE**



NOTE: Included in the calculation are the cash transfer and the value of tax points transferred.
Source: Ministry of Finance.

Since the establishment of EPF, the provincial government has also been faced with varying demands and pressures within the two program areas.

For example, the number of British Columbians aged 65 and over has risen by 45 per cent in the last decade. This has created enormous new demands for health care services which, when coupled with severe cost pressures, have had a very significant effect on spending. During the same period, the provincial age group most closely associated with college/university enrollment has grown by only 4 per cent. Over the next decade, the seniors population is expected to increase by a further 31 per cent, requiring even greater financial allocations to the provision of health care, while the post-secondary age group will decline by 7 per cent.

Appropriately, the province has responded by giving a greater funding emphasis to health care. This approach is completely consistent with the goals of provincial flexibility and effective management which are central to the EPF arrangements.

Moreover, in spite of shifting program priorities, the Government of British Columbia has consistently paid more than half the combined cost of health care and post-secondary education since EPF began in 1977.

Unfortunately, the provincial government has been criticized for depriving post-secondary institutions of "their share" of the federal transfer. This criticism is the product of a misperception, caused primarily by the federal government's division, for accounting purposes, of the federal contribution into separate portions for the different program areas. The provincial government's position is that any suggested program "earmarking" based on this division is not legitimate, being arbitrary, unrealistic, and unrelated to past or existing conditions in British Columbia. It is also not consistent with the agreement reached between the two levels of government which provided for EPF. Other provinces have expressed similar views on this issue.

Notwithstanding the fact that EPF contributions have been reduced by a series of unilateral federal actions, the "block funding" mechanism is an appropriate method of providing federal funding to provincial governments, especially for major social programs under provincial jurisdiction. British Columbia has benefited from having the flexibility to manage its programs according to provincial needs and priorities, while the federal government has been shielded from the strong cost pressures, especially in the health care field, with which provincial governments have been forced to deal.

The Tax Collection Agreements

The second major activity covered by the fiscal arrangements is income tax collection. Under Canada's Constitution, the provinces have the authority to impose and collect direct taxes in any form. Prior to World War II, each province had its own personal and corporation income tax system. The experience of the Great Depression and the onset of the war, however, indicated a need for a system which was more efficient, which addressed the growing problem of harmful tax competition between Canadian jurisdictions, and which would give unhindered federal access to income tax revenue sources.

Accordingly, in what were called "tax rental" arrangements, the provinces terminated their separate collection of income taxes in 1941, transferring this function to the federal government. In return, they were granted compensatory federal "rental" payments.

Despite the fact that this scheme gave no taxing flexibility to the provinces, it lasted until 1962. In that year, the tax rental approach was replaced by the present system which enables each province to levy its own personal and corporation income taxes. Each province can choose to have an independent system or to enter into an agreement for federal administration of either or both taxes. Most provinces, including British Columbia, have chosen the latter alternative.

The option of federal administration through a tax collection agreement offers certain advantages. The provinces benefit because federal administration is provided almost without fees or charges. Taxpayers benefit from having a single collection system, necessitating only one tax return to cover personal or corporation income taxes to two levels of government. As well, the joint collection system has the advantage of utilizing a common tax base, increasing the simplicity and uniformity of the tax system.

However, entering into a tax collection agreement with the federal government does entail costs for a province. One of the conditions of participation in the joint system is that the federal government will have the sole authority to define the common tax base. This, of course, gives the federal government considerable unilateral power to provide tax incentives, a significant part of the cost of which is borne by provincial governments.

The provinces are limited to the provision of tax incentives in the form of tax credits, which have to satisfy not only administrative, but also certain federal policy criteria. In the past, certain British Columbia proposals have been denied by a federal refusal to administer them.

After weighing the advantages and disadvantages, most provincial governments, including the government of British Columbia, continue to support the present system. However, its long-term survival will depend on whether provinces which have entered tax collection agreements with the federal government are given the opportunity to introduce tax incentives comparable to those enjoyed by provinces outside the agreements.

Forthcoming Negotiations

The fiscal arrangements are normally renegotiated every five years. As the current five year period will end on March 31, 1987, a new series of discussions and negotiations will, beginning in 1985, be undertaken by the federal and provincial governments to establish a fiscal arrangements package to cover the period 1987–1992.

G. Provincial Government and Crown Corporation Financing

Introduction

The provincial government and its Crown corporations and agencies undertake borrowing to finance government operations and capital projects. Gross borrowings increased significantly during the early 1980s, peaking in the 1983/84 fiscal year at $2.6 billion. Borrowing has declined slightly since that year, and is expected to total approximately $2.4 billion in 1984/85. Gross borrowing requirements for 1985/86 are expected to be further reduced to $2.1 billion. After debt repayments of $637 million and sinking fund contributions and earnings of $209 million, the increase in the net debt of the provincial government and Crown corporations and agencies is estimated at $1.3 billion for 1985/86. This represents a rise of 8.4 per cent for the year, increasing the net debt outstanding to an estimated $16.7 billion by March 31, 1986.

Financing Process

The provincial government issues direct debt for government purposes to finance its operations, and meets all costs associated with this debt from the Consolidated Revenue Fund. Direct debt incurred for government purposes is expected to total $2.5 billion at March 31, 1985 and to increase to $3.3 billion by March 31, 1986.

Crown corporations and agencies have employed two methods to borrow funds for capital projects. Under the first method, used exclusively until 1983, the corporation or agency borrows in its own name with a provincial government guarantee of the payment of principal, premium and interest. Net guaranteed debt is expected to total $11.7 billion at March 31, 1985 and to decline slightly to $11.4 billion by March 31, 1986, as a result of debt repayments and increases in sinking fund balances.

The issuance of new guaranteed debt has been reduced since the amendment in 1983 of the *Financial Administration Act* to authorize the provincial government to undertake direct borrowing for the purpose of relending the proceeds to Crown corporations and agencies. In this manner, relatively small financing requirements of several entities can be consolidated into one debt instrument issued on more favourable terms. This method of borrowing has been used increasingly in the last two years. At the end of 1984/85 net direct debt incurred on behalf of Crown corporations is expected to total $1.2 billion compared to only $0.2 billion at the end of 1983/84. An increase to $2.0 billion is expected by March 31, 1986.

Regardless of the borrowing method, financing costs and repayment of borrowings remain the responsibility of the Crown corporation or agency. In certain cases the provincial government provides a contribution to cover all or a part of debt service costs. All government debt — direct debt for government

purposes, direct debt reloaned to Crown corporations, and guaranteed debt — with a term in excess of five years contains a provision requiring the establishment of sinking funds in order to provide for orderly repayment of the debt at maturity.

Table G1

Structure of Provincial Government Net Debt

As at March 31	Actual 1984	Revised Forecast 1985	Estimate 1986
		($ millions)	
Direct debt incurred for government purposes	1,596.1	2,472.1	3,272.1
Direct debt incurred on behalf of Crown corporations	237.8	1,176.5	2,037.1
Guaranteed debt	12,755.1	11,740.0	11,368.0
Total	14,589.0	15,388.6	16,677.2

Composition of 1985/86 Borrowing and Debt

Debt issued for government purposes has risen significantly in the last three years, due to government borrowing to meet operating deficits. After using cash reserves retained from earlier surpluses, the provincial government borrowed $700 million in 1982/83. With the exception of a $261 million issue in 1975/76, this was the first direct debt incurred by the provincial government in thirty years. Borrowings in 1983/84 and 1984/85 were $713 million and $876 million respectively.

Net borrowing requirements of $800 million are estimated for government purposes during 1985/86, increasing the total for government purposes to an estimated $3.3 billion, or 20 per cent of total direct and guaranteed debt outstanding at March 31, 1986.

Commercial Crown corporations, which include the British Columbia Hydro and Power Authority, British Columbia Petroleum Corporation, British Columbia Place, British Columbia Development Corporation and British Columbia Railway Company, generate revenue from the sale of services at commercial rates and pay all of their own operating expenses, including debt service charges. At March 31, 1986, net debt of commercial Crown corporations is expected to total $9.4 billion or 56 per cent of total debt outstanding.

Economic development Crown corporations and agencies include the British Columbia Ferry Corporation, British Columbia Housing and Employment Development Financing Authority, British Columbia Transit and Expo 86 Corporation. These corporations are generally operated as commercial corporations, but in some cases do not generate sufficient financial return to service their debt. Because these corporations and agencies provide economic benefits to the province, the government may provide grants or other forms of assistance. At March 31, 1986, net debt of economic development Crown corporations and agencies is expected to total $1.4 billion or 8 per cent of total debt outstanding.

The remaining Crown corporation and agency debt has been used to fund social and government services capital projects. Financing authorities, which provide funds for the construction of hospitals, schools, and post-secondary institutions, comprise the largest component in this category. Debt service requirements are met through provincial grants or rental payments and, for schools and hospitals, partly from local levies. At March 31, 1986, net debt for social and government services capital projects is expected to total $2.7 billion or 16 per cent of total debt outstanding.

Table G2

Financing Plan, 1985/86

	Forecast Net Debt Outstanding at March 31, 1985[1]	1985/86 Transactions		Forecast Net Debt Outstanding at March 31, 1986
		New Borrowing[2]	Less Repayment Provision[3]	
	($ millions)			
PURPOSES:				
Government	2,472	1,038	238	3,272
Crown Corporations				
Commercial	9,176	362	188	9,350
Economic Development	1,123	630	313	1,440
Social and Government Services	2,701	104	107	2,698
Total	15,472	2,134	846	16,760
Less: Amounts held by General and Special Funds	83	—	—	83
TOTAL	15,389	2,134	846	16,677
SOURCES:				
Canada Pension Plan Investment Fund	4,170	353	—	4,523
Trusteed Funds	4,172		1	
Treasury Bills	780	1,781	—	13,975
Private Issues	1,305		366	
Public Issues	6,574		270	
Total Before Sinking Funds	17,001	2,134	637	18,498
Sinking Funds	1,612	—	209	1,821
TOTAL	15,389	2,134	846	16,677

[1] Estimated. Funds borrowed by the government and loaned to Crown corporations are shown as Crown corporation debt. Excludes accrued interest.

[2] Gross new long-term borrowing plus net change in short-term debt.

[3] Sinking fund contributions, sinking fund interest earnings and net maturities of long-term debt (after deduction of sinking fund balances for maturing issues).

Sources of Funds

Funds borrowed to date have been derived in almost equal proportions from internal and external sources. Internal sources comprise the Canada Pension Plan Investment Fund and provincial Trusteed Funds, while external funds include private institutional lenders and public financial markets.

Borrowings from the Canada Pension Plan Investment Fund have been used mainly to finance social capital projects such as schools and hospitals.

Provincial Trusteed Funds, the second source of internal financing, includes the provincial public sector pension funds and the sinking funds of provincial government Crown corporations and agencies. Until 1980 these funds were invested primarily in long-term debt of Crown corporations and agencies. In 1980 a decision was made to broaden the asset mix of the trusteed funds, resulting in fewer funds being made available to Crown corporations and agencies since that date.

Most of the externally provided funds have been obtained through medium and long-term debt issues in public capital markets. Public issues have been undertaken in Canadian, United States and European markets, in either Canadian or U.S. dollars. To a lesser but nonetheless significant extent, private placements have been a source of medium and long-term funds. As in the case of public issues, the ultimate liabilities on all private placements are payable in either Canadian or U.S. dollars.

Short-term debt instruments have also become an important source of funds for both the provincial government and its agencies. A weekly Treasury Bill auction is used for government purposes, and commercial paper has been issued for periods ranging from one day to one year to provide funds for Crown corporations and agencies.

The government raises funds through a variety of debt instruments, depending upon financial market conditions and to meet the objective of minimizing costs, subject to portfolio balance. The terms of the instruments are selected to match the expected life of assets acquired with the proceeds of the issue, to meet future repayment schedules for existing debt, and to ensure that risks associated with interest rate fluctuations are limited as far as possible.

Conclusion

Borrowing requirements have declined from the peak reached in 1983/84 and should decline further in future years. While funds will be needed to finance Expo 86 and ALRT in 1985/86, this will be partially offset by the decline in British Columbia Hydro's requirements.

H. Interim Financial Statements

Interim financial statements, covering the nine-month period from April 1, 1984, to December 31, 1984, have been prepared by the Comptroller General in accordance with the *Financial Administration Act*. The interim financial statements are summarized below.

For the nine months ended December 31, 1984, the deficit on a combined funds basis (Consolidated Revenue Fund) was $719.8 million. This comprised a deficit of $731.6 million for the General Fund and a surplus of $11.8 million for Special Funds.

Revenue for the nine months on a combined funds basis was $5,911.1 million, an increase of $468.5 million, or 8.6 per cent, from 1983/84. The major changes from the corresponding period of the previous year were:

- an increase of $222.3 million, or 6.7 per cent, in taxation revenue, primarily as a result of increases in personal income tax revenue ($47.5 million over last year), social service tax revenue ($99.6 million over last year), and fuel tax revenue ($53.2 million over last year);
- an increase of $60.7 million, or 12.8 per cent, in natural resource revenue, mainly as a result of higher than expected revenue from bonus bids for oil and gas drilling rights to Crown land;
- an increase in other revenue of $52.3 million, or 16.5 per cent, as a result of increased revenue from sales and services, motor vehicle licences, and interest;
- an increase of $123.4 million, or 11.6 per cent, in contributions from the federal government as a result of increased cash payments in respect of Established Programs Financing ($82.4 million over last year) and increased contributions for Canada Assistance Plan ($35.2 million over last year).

Expenditure for the nine months on a combined funds basis was $6,630.9 million, an increase of $480.8 million, or 7.8 per cent, from 1983/84. The major changes from the corresponding period of the previous year were:

- an increase in health ministry expenditure of $54.2 million, or 2.9 per cent;
- an increase in human resources ministry expenditure of $95.8 million, or 9.9 per cent, as a result of increased expenditure on social assistance;
- an increase in highways ministry expenditure of $46.4 million, or 9.8 per cent, due to increased spending on highway construction.

In addition, a contribution of $430 million was made to the British Columbia Railway Company to provide for the retirement of the historic debt of the Railway.

Excluding this one-time contribution total expenditure was approximately 1 per cent higher than for the same period of the previous year.

The interim financial statements report actual revenue and expenditure for the first nine months of 1984/85, but do not include a revised forecast for the 1984/85 fiscal year.

The 1984/85 budget estimate for the full year deficit was $671 million. For several reasons, the deficit is now expected to be significantly higher than originally forecast. Although revenue for the first nine months of the year was $139 million above budget, revenue during the fourth quarter will be negatively affected by major federal government adjustments to income tax revenue relating to prior years. With respect to expenditure, continuing high levels of unemployment in the province will result in significantly higher than expected social assistance expenditure for 1984/85. As well, expenditure for the Ministry of Transportation and Highways will be above the original budget forecast as a result of an acceleration of expenditure for the Coquihalla highway and other highway construction projects. Details of the revised forecast for 1984/85 are presented in the budget tables.

I. Economic and Financial Tables

Table I1
General Economic Indicators

	Unit or Base Period	1981	1982	1983	1984
Demographics:					
Population	June 1	2,744,200	2,791,100	2,826,000	2,870,700
Public school enrollment	September 30	503,371	500,338	497,312	491,085
Labour force	thousands	1,361	1,370	1,389	1,410
Employment	thousands	1,270	1,204	1,197	1,202
Unemployment rate	per cent	6.7	12.1	13.8	14.8
Main Economic Indicators:					
Provincial gross domestic product	$ millions	43,188	44,375	47,238[1]	50,261[1]
Capital investment (new and repair)	$ millions	14,881	13,047	12,340	12,340[1]
Retail sales	$ millions	12,000	11,766	12,257	12,778
Automobile sales	$ millions	967	677	759	895[1]
Housing starts	dwelling units	41,585	19,807	22,607	16,169
Value of building permits	$ millions	3,556	2,161	2,238	1,850[1]
Incomes:					
Personal income	$ millions	35,443	38,591	40,523	41,265[1]
Wages and salaries	$ millions	21,780	22,732	23,293	23,590[1]
Average weekly earnings	$	407	445	427[2]	430[2]
Prices:					
Consumer price index, Vancouver	1981 = 100	100.0	110.5	116.6	121.3
Commodity price index[3]	1980 = 100	90.3	79.0	88.7	92.1
Financial Indicators:					
Business incorporations	total	23,368	11,432	13,787	14,052
Business bankruptcies	total	501	1,042	1,279	1,477
Shares traded (Vancouver Stock Exchange)	$ millions	3,859	1,559	3,963	2,233
Personal savings deposits at chartered banks	$ millions	13,141	14,258	14,412	14,800[1]
Sector Indicators:					
Value of manufacturing shipments	$ millions	16,810	15,377	16,812	17,551
Timber scaled	thousand cubic metres	61,818	56,230	71,443	74,600[1]
Lumber production	thousand cubic metres	24,598	23,856	30,773	30,884
Pulp and paper production	thousand tonnes	6,687	6,664	7,730	7,276
Gross value of mineral production	$ millions	3,009	2,797	2,857	3,285
Petroleum and natural gas production	$ millions	888	913	899	994
Power generation (net)	million kilowatt hours	51,006	48,236	47,213	52,750[1]
Farm cash receipts	$ millions	890	942	902	964
Foreign visitor entries	thousands	3,895	3,580	3,817	3,909

[1] Estimated.
[2] Not comparable with 1982 and preceding years.
[3] The *Economist* index converted to a Canadian dollar basis.

Table 12
Comparative Provincial Tax Rates, March 15, 1985

Tax	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland
Personal income (per cent of basic federal tax)	44[1]	43.5	51[1]	54[1]	48[1]	([2])	58	56.5	52.5	60
Corporation income (per cent of taxable income)										
General rate	16	11[3]	16	16	15[3]	5.5	15	15	10	16
Small business rate	8[3]	5[3]	10[3]	10	*Nil*[3]	3	9	10	10	10
Corporation capital (per cent of taxable paid up capital)										
Non-financial corporations	0.2[4]	*Nil*	0.3	0.2	0.3	0.45	*Nil*	*Nil*	*Nil*	*Nil*
Trust companies	0.6[4]	*Nil*	0.8	0.6	0.6	0.9	*Nil*	*Nil*	*Nil*	1.5
Banks	0.8/2.0[4]	*Nil*	0.8	1.9	0.8	0.9	*Nil*	*Nil*	*Nil*	1.5
Insurance premiums (per cent)[5]	2	2	3	3	3	3	3	3	2	3
Gasoline										
Per cent of retail price	20	*Nil*	*Nil*	N/A	20	30	20	20	20	22
Cents per litre	8.01	*Nil*	*Nil*	7.5	8.0	12.9	9.0	9.8	9.9	10.8
Diesel fuel										
Per cent of retail price	([6])	*Nil*	*Nil*	N/A	27	30	23	21	23	26
Cents per litre	8.45	*Nil*	*Nil*	8.6	9.3	11.25	9.7	9.7	11.0	12.6
Retail sales										
General rate (per cent)	7	*Nil*	5	6	7	9	10	10	10	12
Liquor (per cent)	7	*Nil*	10	12	12	9	10	10	37.5[7]	12
Meals (per cent)[8]	7	*Nil*	*Nil*	6	7	10	10	10	10	12
Accommodation (per cent)	7	*Nil*	*Nil*	6	5	*Nil*	10	10	10	12
Tobacco (cents per package of 25 cigarettes)[9]	62	37	67	65	66.5	62.3	75	50	37.5	119.5

[1] British Columbia has a 10 per cent surtax on provincial tax in excess of $3,500, plus an additional 8 per cent health care maintenance surtax applied to the sum of provincial tax and the 10 per cent surtax (if applicable). Saskatchewan has a 12 per cent surtax on provincial tax in excess of $4,000. Manitoba has a 20 per cent surtax on the amount by which provincial tax payable exceeds tax payable at a taxable income of $25,000. Ontario has a 5 per cent surtax on provincial tax in excess of $110.80.

[2] Quebec levies its own personal income tax. Therefore, Quebec tax is not presented as a percentage of federal tax.

[3] In British Columbia, a refundable small business employment tax credit equivalent to $300 per employee is payable to corporations for their first two taxation years beginning after March 31, 1985. In Alberta, Saskatchewan and Ontario, reduced tax rates apply to manufacturing and processing income. In Alberta, small business manufacturing and processing income is exempt from corporation income tax. Manufacturing and processing income for other corporations is taxed at 5 per cent. Small business manufacturing and processing income is exempt from tax in Saskatchewan. In Ontario, a 14 per cent corporation income tax rate applies to taxable income derived from manufacturing and processing as well as taxable income from mining, logging, farming, and fishing operations.

For corporation fiscal years ending before May 14, 1985, all small businesses in Ontario are exempt from corporation income tax. For corporation fiscal years ending after May 13, 1985, the small business corporation income tax will apply to all small businesses, except those in the first three years of incorporation.

[4] Commencing with corporation fiscal years ending on or after April 1, 1985, the British Columbia corporation capital tax will be phased out over three years for all corporations currently taxed at the rate of 0.2 per cent, trust companies taxed at 0.6 per cent, banks taxed at 0.8 per cent and all other banks with headquarters located in British Columbia.

[5] Tax is payable by insurer. In Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, life, sickness and accident insurance premiums are taxed at 2 per cent and all other premiums are taxed at 3 per cent. In British Columbia the tax rate for all insurance premiums, other than policies for life, sickness and accident insurance, will increase to 3 per cent, effective January 1, 1986; the 2 per cent tax rate will continue to apply to premiums for life, sickness and accident insurance. In Newfoundland, an additional 12 per cent tax on premiums is payable by the insured. Most provinces levy an additional tax of 1 per cent or less on fire insurance premiums to fund the office of the provincial fire commissioner.

[6] In British Columbia, the tax rate on diesel fuel is equal to the tax rate on gasoline plus 0.44 cents per litre.

[7] In Prince Edward Island, liquor is taxed under the *Health Tax Act* at 25 per cent and under the *Retail Sales Act* at 10 per cent, resulting in a compound tax rate of 37.5 per cent.

[8] A basic exemption for low priced meals exists in most provinces. In British Columbia, meals less than $7.00 are exempt from tax.

[9] In British Columbia, the tax on cigarettes is indexed to reflect changes in the retail price. Effective April 1, 1985, the tax rate on all tobacco products sold in British Columbia will increase by 10 per cent. In Ontario, Quebec, New Brunswick and Newfoundland, set rates are applied to a determined retail price. Other provinces tax cigarettes by an amount which cannot be adjusted without legislative amendment. In Prince Edward Island, Newfoundland and Ontario tobacco products are also subject to retail sales tax.

Table I 3

Financial Transactions
Consolidated Revenue Fund

	Actual 1981/82	Actual 1982/83	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86
			($ millions)		
Financial Requirements:					
Operating Transactions:					
Revenue	6,903.5	6,529.1	7,344.3	7,776.0	8,166.0
Expenditure	7,087.5	7,513.3	8,363.9	8,746.0	9,056.0
Surplus (Deficit)	(184.0)	(984.2)	(1,019.6)	(970.0)	(890.0)
Net Receipts from (Disbursements for) Financing Transactions	50.3	(78.0)	(18.2)	47.0	9.0
Net Receipts from (Disbursements for) Working Capital Transactions	158.5	(187.3)	249.3	(37.0)	68.0
Total Direct Financial Requirements	24.8	(1,249.5)	(788.5)	(960.0)	(813.0)
Financial Sources:					
Net Direct Borrowing	(26.1)	700.0	950.8	1,814.7	1,660.6
Less: Funds reloaned to Crown corporations	—	—	237.8	938.7	860.6
Net Direct Borrowing for Government purposes	(26.1)	700.0	713.0	876.0	800.0
Decrease in Cash and Temporary Investments	1.3	549.5	75.5	84.0	13.0
Total Direct Financial Sources	(24.8)	1,249.5	788.5	960.0	813.0
Direct Provincial Debt at Year End:					
For Government Purposes	183.1	883.1	1,596.1	2,472.1	3,272.1
On Behalf of Government Corporations	—	—	237.8	938.7	2,037.1
Total Direct Provincial Debt	183.1	883.1	1,833.9	3,410.8	5,309.2
Guaranteed Debt at Year End:					
Total Guaranteed Debt	9,943.4	11,426.8	12,755.1	11,740.0	11,368.0

Table I 4

Revenue by Source[1]
Consolidated Revenue Fund

	Actual 1981/82	Actual 1982/83	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86	Annual Rate of Growth 1981/82 to 1985/86
	($ millions)					(per cent)
Taxation Revenue:						
Personal income	1,848.2	2,008.2	1,818.8	1,853.0	2,005.0	2.1
Corporation income	580.0	188.5	309.5	359.0	415.0	(8.0)
Social service	1,129.5	999.5	1,201.3	1,329.0	1,441.0	6.3
Fuel	371.4	389.0	421.1	471.0	443.0	4.5
Tobacco	102.9	109.1	138.4	158.0	182.0	15.3
Corporation capital	89.8	83.8	85.8	91.0	95.0	1.4
Property	43.4	40.7	36.8	39.0	39.0	(2.6)
Insurance premium	20.2	21.1	20.9	23.0	24.0	4.4
Hotel room	23.7	22.6	23.2	25.0	27.0	3.3
Horse racing	7.6	7.2	7.7	7.0	7.0	(2.0)
Total, taxation revenue	4,216.7	3,869.7	4,063.5	4,355.0	4,678.0	2.6
Natural Resource Revenue:						
Petroleum and natural gas:						
B.C. Petroleum Corporation and natural gas royalties	219.9	96.0	166.2	138.0	114.0	(15.1)
Permits and fees	69.8	49.3	70.4	105.0	87.0	5.7
Petroleum royalties	67.2	83.5	96.7	99.0	100.0	10.4
Minerals	62.5	32.5	31.6	55.0	61.0	(0.6)
	419.4	261.3	364.9	397.0	362.0	(3.6)
Forests:						
Logging tax	12.3	2.1	1.0	4.7	5.0	(20.1)
Timber sales	78.4	64.7	103.8	111.0	109.0	8.6
Other forests revenue	16.0	16.1	26.1	25.3	40.0	25.7
	106.7	82.9	130.9	141.0	154.0	9.6
Water resources	65.0	187.4	172.0	189.0	204.0	33.1
Wildlife Act	6.6	10.9	10.9	11.0	12.0	16.1
Total, natural resource revenue	597.7	542.5	678.7	738.0	732.0	5.2
Other Revenue:						
Sales and services	178.4	150.4	183.6	201.0	193.0	2.0
Licences and permits:						
Motor-vehicle licences and permits	103.5	102.1	39.8	120.0	125.0	4.8
Other	41.8	44.0	43.7	50.0	54.0	6.6
	145.3	146.1	83.5	170.0	179.0	5.3
Fines and penalties	19.0	15.3	16.4	16.8	18.0	(1.3)
Interest from investments	211.5	91.3	77.1	108.0	92.0	(18.8)
Miscellaneous	78.7	90.3	63.0	41.2	45.0	(13.0)
Total, other revenue	632.9	493.4	423.6	537.0	527.0	(4.5)

[1] Certain comparative figures for prior years have been reclassified to conform with the 1985/86 presentation.

Table I4

Revenue by Source
Consolidated Revenue Fund — *Continued*

	Actual 1981/82	Actual 1982/83	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86	Annual Rate of Growth 1981/82 to 1985/86
	($ millions)					(per cent)
Contributions from Government Enterprises:						
Liquor Distribution Branch	315.8	337.9	351.5	360.0	390.0	5.4
B.C. Buildings Corporation	8.0	—	—	—	—	—
B.C. Systems Corporation	2.7	—	—	—	—	—
Total, contributions from government enterprises	326.5	337.9	351.5	360.0	390.0	4.5
Contributions from Federal Government:						
Established Programs Financing	643.9	652.4	928.5	1,058.0	1,104.0	14.4
Canada Assistance Plan	320.1	460.0	543.7	576.0	614.0	17.7
Fiscal Stabilization Program	.	—	139.0	24.0	—	—
Other	118.3	103.2	161.5	127.0	121.0	0.6
Total, contributions from federal governm	082.3	1,215.6	1,772.7	1,785.0	1,839.0	14.2
Non-Recurring Revenue	47.4	70.0	54.3	1.0	—	—
TOTAL REVENUE	6,903.5	6,529.1	7,344.3	7,776.0	8,166.0	4.3

Table I5

Expenditure by Function[1]
Consolidated Revenue Fund

	Actual 1981/82	Actual 1982/83	Actual 1983/84	Revised Forecast 1984/85	Estimate 1985/86	Increase (Decrease) 1984/85 to 1985/86
	($ millions)					(per cent)
Health	1,940.3	2,231.5	2,485.9[2]	2,463.0	2,583.7	4.9
Social Services	958.4	1,187.2	1,403.7	1,555.7	1,570.5	1.0
Education	1,550.0	1,668.6	1,750.6	1,686.0	1,753.6	4.0
Transportation and communications	729.9	593.7	799.8	752.0	1,010.3	34.3
Natural resources, trade and industrial development	573.9	512.7	490.7	529.1	632.7	19.6
Protection of persons and property	318.7	351.7	370.2	401.4	411.6	2.5
Aid to local government	361.3	307.2	307.9	284.0	295.0	3.9
Debt servicing	16.9	28.3	112.6	265.0	384.1	44.9
General government	303.3	342.1	347.9	170.9	153.0	(10.5)
Housing	113.5	120.5	87.3	70.5	76.6	8.7
Recreational and cultural services	76.2	57.3	56.5	56.2	66.0	17.4
Other[3]	145.1	112.5	150.8	512.2	118.9	(76.8)
TOTAL EXPENDITURE[4]	7,087.5	7,513.3	8,363.9	8,746.0	9,056.0	3.5

[1] The functional analysis of expenditure in 1981/82 through 1983/84 is not strictly comparable to 1984/85 and 1985/86. Prior to 1984/85, employee benefit and telecommunication costs were included in General government. For 1984/85 and 1985/86, these costs have been allocated among all functions.

[2] Includes a one time adjustment of $130.1 million for provincial contributions to the Medical Services Plan to reflect the change from a cash to an accrual basis of accounting.

[3] Includes a $430 million payment to the British Columbia Railway Company during 1984/85 to provide for the retirement of the historic debt of the Railway.

[4] The annual rate of expenditure growth from 1981/82 to 1985/86 is 6.3 per cent.

Table I 6

Direct Debt Outstanding at December 31, 1984[1]

Maturity	Date of Issue	Rate	Series	Amount Outstanding
DEBT ISSUED FOR GOVERNMENT PURPOSES		(per cent)		($ millions)
Short-Term Debt				
Treasury Bills				
January to March 1985	October to December 1984	9.89 to 12.04		780.0[2]
Province Short-Term Programs[3]				
Canadian Market				
January to February 1985	November to December 1984	10.60 to 10.77		30.0
Total Short-Term Debt				810.0
Long-Term Debt				
May 1, 1988	May 1, 1978	9.125	BD[4]	104.8
March 31, 1988	March 31, 1983	11.375	PRA	26.1
August 23, 1988	August 23, 1983	11.50	PRB	100.0
October 20, 1993	October 20, 1983	12.00	PRC	150.0
December 9, 1993	December 9, 1983	12.00	BCEC-1	125.0
December 16, 1985	December 16, 1983	10.25	PRD	200.0
April 26, 1989	April 26, 1984	5.00	BCSF-1	190.0
March 1, 1985 to February 28, 2005	June 15, 1984	4.875 to 16.875		723.7[5]
July 6, 1991	July 6, 1984	13.50	BCEC-2	68.0
November 29, 1991	November 29, 1984	12.25	BCEC-3	100.0
Total Long-Term Debt				1,787.6
Total for Government Purposes				2,597.6
DEBT ISSUED ON BEHALF OF CROWN CORPORATIONS				
Province Short-Term Programs[3]				
Canadian Market				
January to July 1985	September to December 1984	9.91 to 12.44		349.9
United States Market				
January to July 1985	September to December 1984	9.83 to 12.33		137.5
Total Short-Term Debt				487.4
Long-Term Debt				
November 10, 2003	November 10, 1983	11.65	BCCP-1	10.0
December 1, 1998	December 1, 1983	11.125	BCJC-1	50.0
January 15, 2009	January 15, 1984	8.75	BCJC-2	25.0
January 31, 1996	January 31, 1984	12.25	BCJC-3	24.0
April 2, 2004	April 2, 1984	12.60	BCCP-2	32.7
May 10, 2004	May 10, 1984	13.48	BCCP-3	59.3
June 8, 2004	June 8, 1984	13.70	BCCP-4	52.9
June 20, 1989	June 20, 1984	Floating	FRN-1	20.0
July 6, 1991	July 6, 1984	13.50	BCEC-2	32.0
July 10, 2004	July 10, 1984	13.80	BCCP-5	29.4
July 30, 1994	July 30, 1984	13.65	BCJY-1	54.8
August 7, 2004	August 7, 1984	14.06	BCCP-6	24.7
September 10, 2004	September 10, 1984	13.20	BCCP-7	17.0
October 1, 1989	October 1, 1984	12.75	PRE	100.0
November 7, 2004	November 7, 1984	12.96	BCCP-8	16.9
Total Long-Term Debt				548.7
Total on Behalf of Crown Corporations				1,036.1
Total Direct Debt				3,633.7

[1] Excludes accrued interest.
[2] Reported at face value.
[3] Reported at maturity value in Canadian dollars.
[4] The bonds are repayable in four annual installments due May 1 of each year to 1988. The province has the option to redeem the bonds on any date prior to maturity, in whole or in part.
[5] Represents par value of bonds issued to the British Columbia Railway Company sinking fund. Proceeds of the issue totalled $549 million with the discount reflecting the difference between coupon rates and market rates at the time of issue.

Table I7

Direct and Guaranteed Debt, 1971 to 1984[1]

At March 31,	Direct and Guaranteed Debt	Sinking Funds	Net Direct and Guaranteed Debt	Debt as Percentage of Gross Provincial Product[2]
	($ millions)			(per cent)
1971	2,776.9	271.9	2,505.0	27.4
1972	3,045.9	305.4	2,740.5	26.6
1973	3,295.7	345.5	2,950.2	25.0
1974	3,647.1	391.8	3,255.3	22.1
1975	4,249.8	447.3	3,802.5	22.0
1976	5,082.8	514.4	4,568.4	23.9
1977	6,285.3	539.5	5,745.8	25.2
1978	7,175.1	625.5	6,549.6	25.8
1979	7,831.6	759.0	7,072.6	25.1
1980[3]	8,979.4	926.6	8,052.8	24.5
1981[3]	9,531.2	1,034.7	8,496.5	22.7
1982[3]	11,327.2	1,200.8	10,126.4	23.4
1983[3]	13,599.9	1,290.0	12,309.9	27.7
1984[3]	16,253.4	1,664.4	14,589.0	30.9

[1] As reported in the Public Accounts.

[2] Gross provincial product for previous calendar year.

[3] Debt figures shown for 1960 to 1984 are net of amounts held as investments by the General and Special Purpose Funds. For the years 1960 to 1984, accrued interest on the guaranteed debt is included and U.S. dollar debt is translated at the prevailing rate of exchange on March 31. For other years, U.S. dollar debt is translated at the rate of U.S. $1 = Cdn. $1, except for British Columbia Hydro and Power Authority debt which, for 1978 and 1979, was translated at the exchange rate prevailing on the date the debt was incurred.

Table I 8

Debt Guaranteed by the Provincial Government at December 31, 1984[1]

	Gross Debt Outstanding	Less Sinking Funds	Net Debt Outstanding
	($ millions)		
Commercial:			
Hydro and Power Authority Act	9,204.0	851.5	8,352.5
Development Corporation Act			
Debentures	76.7[2]	—	76.7
Notes	76.0	—	76.0
Petroleum Corporation Act	30.0	—	30.0
British Columbia Place Act			
Debentures	30.0	0.7	29.3
Economic Development:			
Agricultural Credit Act	3.4	—	3.4
British Columbia Cellulose Company Act	4.5	—	4.5
British Columbia Transit Act			
Debentures	76.4	1.7	74.7
Notes	100.0	—	100.0
Leases	88.7	—	88.7
Farm Product Industry Act	4.0	—	4.0
Ferry Corporation Act			
Debentures	43.3	0.3	43.0
Financial Administration Act., Sec. 56 — *Re:* W.L.C. Developments Ltd.			
Debentures	10.8	—	10.8
Notes	3.0	—	3.0
Greater Vancouver Sewerage and Drainage District Act (some serials)	10.1	10.1	—
Housing and Employment Development Financing Act			
Bonds and Debentures	165.2	—	165.2
Ministry of Transportation and Highways Act — Re: British Columbia Steamship Company (1975) Ltd.	4.2	—	4.2
Social and Government Services:			
British Columbia Buildings Corporation Act			
Debentures	502.7	27.5	475.2
Educational Institution Capital Finance Act	402.8	32.3	370.5
Hospital District Finance Act	938.2	214.9	723.3
Municipal Act, Part 25 (some serials)	21.3	7.4	13.9
Municipalities Assistance Act	6.8	—	6.8
School District Capital Finance Act	1,347.6	423.2	924.4
System Act			
Debentures	47.9	1.7	46.2
Total	13,197.6	1,571.3	11,626.3
Less: Held by General and Special Purpose Funds	93.3	10.3	83.0
TOTAL GUARANTEED DEBT	13,104.3	1,561.0	11,543.3

[1] Unconditionally guaranteed as to principal, premium if any, and accrued interest by the province. Debt payable in United States funds of $4.0 billion is included, recorded in Canadian dollars at the December 31, 1984 rate of exchange. Accrued interest is not included. Some of the amounts shown are preliminary. Guaranteed debt does not include direct debt which has been incurred by the government and reloaned to Crown corporations.

[2] Excludes $165.2 million borrowed from the Housing and Employment Development Financing Authority.